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GALLO IN AUSTRIA

- Internationalization Plan -

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Abstract

As history shows, Gallo has been an internationally-oriented firm, and now it seeks to increase its presence in Europe by entering the Austrian market. Hence, the purpose of this work project is to devise an internationalization plan for Gallo, first by analyzing whether the company should, in fact, internationalize, and then defining the best strategy to accomplish it successfully. It is the group's assessment that Gallo should enter the Austrian market through distributor-intermediated exports of an organic olive oil adapted to Austrians' tastes, promoting both a healthy and flavorful nutrition to harness favorable social trends unfolding in the country.

Key words: Internationalization, Austria, Export, Olive oil.

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Introduction

Internationalization is an integral part of the ongoing growth strategy of Gallo Worldwide, a visionary Portuguese multinational whose world-class olive oil is sold in over forty countries around the world. Its aim to bring olive oil into every nation's diet plans has now led Gallo to consider entering the Austrian market. In this respect, the internationalization plan outlined in this work project was created at the company's request. Its purpose is twofold: to understand whether Gallo should, in fact, enter Austria; and if so to provide actionable recommendations to improve the company's chances of succeeding in its international endeavor.

The recommendations engendered result from an extensive research which included, for the most part, online research and conversations with Gallo Worldwide's executives, Victor Guedes' employees and Aicep Portugal Global representatives. Of noteworthy relevance for this project, a database comprising all olive oil offerings available in leading grocery retailers in Austria was constructed and used to devise an appropriate entry strategy.

For a better understanding, this internationalization plan is organized in two parts. The situation analysis is displayed first, including a brief company overview, a market audit report, a company analysis and, lastly, a SWOT analysis which is intended to summarize the main insights gathered and provide a basis for the recommendations outlined in the second part of the report. The latter, in turn, is divided in Entry mode choice, Marketing plan, Operations plan, Financials and Implementation plan.

Overall, the decision to enter Austria is supported over the report. It is the group's assessment that, should Gallo harness its internal resources to exploit favorable social trends unfolding in the country, it will be able to sustain competitive advantage and succeed in the Austrian market.

I PART – Situation analysis

The scenario analysis is divided into four sections. First, a brief company overview is presented, followed by a market audit report where relevant country- and industry-level forces are

reviewed. So far, the goal is to assess whether there is a promising business opportunity for Gallo to seize in Austria. Afterwards, an internal analysis of Gallo Worldwide is performed, which combined with the main conclusions provided by the market audit will help understand whether Gallo has competitive advantage in this foreign market. Finally, a SWOT analysis is intended to synthesize the key insights gathered throughout the situation analysis and provide a basis for the recommendations outlined in the second part of the report.

1 | Company overview

Present in over forty countries, Gallo is a visionary Portuguese multinational specialized in the production and sale of bottled olive oil (Gallo Worldwide, 2017).

The current fourth biggest olive oil brand in the world has its origins in the late nineteenth century in an establishment owned by União Industrial, Lda., located in Abrantes, Portugal. In 1938, almost twenty years after being registered as a trademark, Gallo proved its visionary strategy when it started exporting olive oil to countries with large Portuguese communities, such as Brazil and Venezuela. Afterwards, in the late 60s, Gallo decided to shift its strategic orientation from exportation to penetration in the domestic market. This strategy, alongside a massive industrial expansion and significant investment in new machinery and facilities, allowed the company to achieve its goal of becoming the number one player in the national olive oil market, something that lasts until today.

In 1989, Unilever Jerónimo Martins acquired Gallo, resulting in a noticeable reinforcement of promotion that ended up having a positive impact in terms of growth, ultimately consolidating Gallo's leading position. Two decades later, Unilever decided to give full autonomy to the Portuguese company, creating Gallo Worldwide.

Currently, Gallo has a portfolio that ranges from more than a dozen types of olive oils **[Appendix 1]**, to vinegar and other products, such as table olives and piri piri sauce. This illustrates the Portuguese multinational's strategy of product diversification. Additionally,

Gallo has even reinvented the shape size and materials of its bottles so that it continues to keep up with the latest trends, both in terms of aesthetics and food safety.

All in all, even though these efforts have granted Gallo a top five world position, the company aspires to go even further and become the number one player in the global olive oil industry.

2 | Market audit

2.1 | Country analysis

PESTEL analysis as applied to Austria.

2.1.1 | Political forces

In recent years, the stability and prosper economic results provided by the Proporz – a political duopoly system implemented in 1955, seventeen years after the German annexation - started fading away. With it, new political parties gained traction, and, in the past presidential elections, the polls showed shifting voting intentions as Austria almost became the first European country electing a far-right candidate for the presidency. Nevertheless, food purchase decisions are unlikely to be postponed as a result of political upheaval, even though firms may delay investment following the collapse of the governing coalition (Hixon, 2017).

Fueling the skepticism around the country's unique political system are the general perceptions of heavy government regulations and wasteful government spending (Schwab, 2016). However, government spending on modern transport infrastructure has supported business in the country. Austria lies along four out of Europe's nine major goods transport corridors. So as to leverage on this remarkably good strategic position, Austria's public investment of €258 *per capita* in railways in 2012 was second only to Switzerland's in Europe (Atkins *et al.*, 2016). Analysts say the country's outsized logistics sector far outweighs the costs, a statement supported by the World Economic Forum, which ranks Austria fourteenth in the world for infrastructure in its 2016 competitiveness index (Schwab, 2016). This adds to Austria's attractiveness as a target market, for businesses generally seek locations that are well connected and easily accessible.

Nonetheless, it is unclear whether government plans to overhaul institutions and raise infrastructure spending will support the economy in the same way the tax reform of 2015-2016 raised consumer spending and investment (Hixon, 2017). The early general elections of October 2017 may also delay the progress of reforms.

2.1.2 | Economic forces

In Austria, several years of subdued growth followed the initial rebound from the financial crisis. However, economic output has accelerated in 2016 supported by a tax reform that increased household disposable income by roughly 3 percent (OECD, 2017). As a result, real private final consumption grew by 1.9 percent in 2016.

From 2017 onwards, private consumption growth of around 2 percent will be propelled by steady wage growth, solid rises in employment and softening inflation (Hixon, 2017). Moreover, returning household confidence means that consumers are increasingly willing to spend. Such improving prospects have seen Austria's GDP growth forecast for 2017 raised to 2.7 percent, setting Austria on course to grow more quickly than the Eurozone. This improvement in the macroeconomic situation has strengthened both household and business confidence and the medium-term outlook is favorable, especially considering that rising household consumption is a key success factor for Gallo's profitability in the medium-term.

However, long-term forecasts for imports of goods are not so encouraging **[Exhibit 1]**. In fact, imports are projected to decrease, which may point to foreign firms' skepticism regarding the future of the country arising from political upheaval. The savings ratio could decline less than projected, holding back the increase in private consumption and impair growth (*OECD Economic Surveys: Austria 2017*, 2017). Either way, as a company considering exporting consumer goods to Austria, this is a factor to consider.

2.1.3 | Social forces

Austria represents a relatively small market with 8.7 million people, a number that is expected to reach 9.5 million by 2030 (Euromonitor International, 2016a). Population growth is mainly

attributed to gains from international migration (Austrian Press & Information Service in the United States, 2013). Indeed, relative to the size of the resident population, Austria recorded among the highest rates of immigration in the European Union (E.U.) in 2015 (Eurostat, 2017).

Exhibit 1 | Long-term forecasts for Austria (2006-10, 2021-25) (Hixon, 2017).

Long-Term Forecast for Austria
(Average annual percentage change unless otherwise stated)

	2006-2010	2011-2015	2016-2020	2021-2025
GDP	1.3	1.1	1.9	1.2
Consumption	1.1	0.3	1.8	2.0
Investment	-0.5	2.0	2.1	1.9
Government Consumption	2.2	0.7	1.3	1.5
Exports of Goods and Services	2.7	2.8	3.5	2.8
Imports of Goods and Services	2.1	2.5	4.0	3.2
Unemployment (%)	4.9	5.2	5.2	4.7
Consumer Prices	1.8	2.1	1.4	1.8
Current Balance (% of GDP)	3.4	1.9	1.4	1.1
Exchange Rate (US$ per Euro)	1.36	1.29	1.17	1.22
General Government Balance (% of GDP)	-3.1	-2.0	-1.3	-0.6
Short-term Interest Rates (%)	2.8	0.5	-0.2	0.9
Long-term Interest Rates (%)	3.9	2.0	1.0	2.4
Working Population	0.3	0.4	0.1	0.0
Labour Supply	1.0	1.1	0.4	-0.3
Participation Ratio	78.8	81.3	83.8	83.3
Labour Productivity	0.1	0.2	1.2	1.5

As a result of migration inflows, Turks are the third biggest ethnic group in the country, accounting for 1.6 percent of the country's population (Central Intelligence Agency, 2017) and 4 percent of the Viennese population (Vienna City Administration, 2016). This is of particular relevance because, in Turkey, olive oil is a very important food product and takes pride of place in Turkish cuisine (International Olive Oil Council, 2016a), unlike what generally happens in Austria. This, alongside Austria's strong and growing middle class with high purchasing power - disposable income per capita is US$31,667 a year, higher than the OECD average -, counterbalances the small dimension of the market, making it more attractive for Gallo to enter. Moreover, according to a survey conducted by the Austrian Ministry of Life in 2014, the desire for good food ranked fifth among the most important things in life for Austrians (Euromonitor International, 2017a). This desire for good food led to a growing health awareness among consumers, which is reflected in a greater interest in healthier diets.

Globally, an analysis of retail sales data suggests that consumers are indeed reducing their consumption of fat, sugar and sodium (Nielsen, 2016b). In Austria, year over year 2016 sales volume of sugar declined 9.8 percent. Nevertheless, consumers appear less averse to foodstuffs

that have health benefits mixed with high caloric or saturated-fat content. Nielsen (2015) predicts that "while diet fads come and go over time, innovative, back-to-basics foods that taste good, are easy to prepare and provide healthful benefits will have staying power".

This growing concern with healthier nutrition also seems to be in line with the general trend of Austrians towards eating the main meal at home (Euromonitor International, 2017a), since a growing number of consumers perceive cooking at home as a healthier alternative than eating out or buying a ready meal. Still, while many households enjoy meals made from scratch, consumers across Austria are driving demand for greater convenience and cleaner consumption (Euromonitor International, 2016b). Faced with increasingly busy lifestyles, consumers are opting for convenient products that shorten preparation times, but still provide tasty meals. This goes beyond just convenience, as they increasingly choose clean products that stop them from getting their hands smeared and prevent the disposal of the product packaging.

Moreover, barbecuing is booming as one of the country's favorite pastimes (Euromonitor International, 2016c). For many Austrians, barbecues are perfect opportunities to host a gourmet kitchen or a garden festival and, as 72 percent of Austrian households possessed a barbeque as of 2015, grilling is popular all year round (Euromonitor International, 2017a). The popularity of barbecuing has fueled increased demand for barbecue products, but its impact on the demand for healthier fats or seasonings like olive oil is not yet clear.

At the same time, a growing environmental awareness among Austrian consumers has aroused interest in regional and local fresh foods (Euromonitor International, 2017a). According to a 2014 Eurobarometer Survey conducted by the European Commission, 47 percent of Austrians agree they can play a role in protecting the environment, and 61 percent said they do so by selecting local products. Moreover, an increasing number of consumers are willing to spend more for local food and, whereas supermarkets and discounters remain the most popular destinations for household shopping, rising consumer demand for local products has prompted

the popularity of farmer's markets. This certainly raises relevant concerns for foreign companies considering to enter the Austrian consumer goods market.

2.1.4 | Technological forces

In what regards technology, Austria is reaching the most technologically advanced economies in Europe. As of 2016, 83 percent of households in Austria had access to broadband internet, and the popularity of internet retailing continues to grow (Euromonitor International, 2017a). Value sales of internet retailing increased by 53 percent between 2012 and 2016, to reach €945 *per* household. However, e-commerce in Austria lies well behind peer countries (OECD, 2017). By 2016 major grocery retailers, including Billa, Merkur and Spar, had already launched or expanded their online services, but consumers have generally been cautious in their acceptance (Euromonitor International, 2017a). Some consumers are keen on the convenience and same-day delivery offered by online shopping. Others, however, still prefer to buy groceries in brick-and-mortar grocers where they can see and choose fresh products they might want to purchase. Overall, according to the Austrian Chamber of Commerce, online grocery shopping accounted for only 2 percent of the industry's total turnover in 2015. From the businesses' standpoint, only 15 percent of Austrian retail firms attained the threshold of 1 percent of e-sales in 2016, compared with 30 percent in peer countries (OECD, 2017).

2.1.5 | Environmental forces

Austria has strict environmental policies, with more than twenty international agreements in place (Central Intelligence Agency, 2017). However, while public opinion has pushed the government to be in the vanguard of international environmental protection, Austria is one of the very few E.U. countries that has failed to meet its Kyoto commitments (Sustainable Governance Indicators, 2017). With is outsized logistics sector, Austria has not met reduction targets under the E.U.'s 2020 program (Atkins *et al.*, 2016) and the failure to shift to rail-based goods transport – despite the government's investment in railroad infrastructure - has kept vehicular CO_2 emission rates high.

In line with these policies, waste management has been effectively promoted through a mix of taxes, charges and legislative initiatives (Austrian Economic Chambers, 2016). As a particular instance, the Austrian government implemented the Packaging Ordinance in 1992. Its aim is to promote reuse and waste prevention and to prepare for the reuse and recycling of packaging material. Any entity putting packaging material into circulation must comply with the provisions of the ordinance, including importers (Valpak, n.d.). Obligated parties can comply in two ways: by ensuring the recovery and recycling of the packaging and delivering proof that the recycling targets have been achieved, or by joining a collection and recovery scheme.

Even though compliance schemes can assist in offsetting a firm's legal obligations, achieving recycling targets and eliminating much of the administrative burdens, this ordinance and other environmental policies alike impose additional costs to Gallo, which will need to obey to strict rules regarding the environmental footprint of its business in Austria.

2.1.6 | Legal forces

As an E.U. member state, Austria is required to comply with all E.U. directives and regulations and it is bound by E.U. trade treaties, import regulations, custom duties, and other trade regulations (Maciejewski & Dancourt, 2017). This means that, as a business trading within the E.U., the European Economic Area (EEA) and Turkey, one has the right to export and import goods freely, having the government no authority to limit quantities or restrict trade in any way. Moreover, the Austrian legal framework is also in accordance with provisions under the E.U. law that are intended to provide important safeguards for consumers and allow producers to maximize the benefits of selling on the basis of quality. In line with these, Austrian law reiterates E.U.'s regulation on marketing standards. For instance, it outlines the standards for packaging, labeling, presentation and advertising required for marketing olive oil and other oils obtained from it in the internal market (European Commission, 2004).

2.1.7 | Concluding remarks

Overall, modern infrastructures, an outsized logistics sector, growing household disposable income, increasing private consumption, and favorable attitudes towards food allied with encouraging social trends pinpoint a promising opportunity for Gallo in the Austrian market.

Still, an analysis of the risk of international business in Austria yields some circumstances Gallo should be attentive to. For instance, investment has recently accelerated, yet enterprise churn is higher than in comparable countries. New entrants grow at a slower rate than in OECD comparable countries and their rate of survival is on the lower side (OECD, 2017).

Moreover, the financial risk of the country presents itself fairly low, in line with the Eurozone average but slightly above the average of advanced economies. This reflects Austria's historical political stability and the credibility of institutions in the E.U., but still reflects vulnerability to external shocks, including from oil prices - CPI inflation rose sharply at the start of 2017, partly because of oil price-related base effects - and political upheaval (Hixon, 2017). Allied to raw material price volatility upstream, final product price volatility downstream may prove itself unfavorable for Gallo since it already operates under low margins.

In addition, although the up-surging health and wellness trend is certainly encouraging, the impact of increasing demand for convenient food and local products, as well as the rising popularity of barbecuing all year round, on the demand for olive oil and naturally healthy products alike is still not clear. Therefore, it is also a risk to consider beforehand. Nonetheless, Austria is, in a macroeconomic perspective, an attractive market for international business.

2.2 | Industry analysis

2.2.1 | General outlook

Data collected by the International Olive Oil Council (2016b) reveals an overall consumption of 10.2 thousand tons of olive oil in Austria in 2016/17. Even though this is only 1/7 of the consumption in Portugal, it reflects a positive trend of growth. Indeed, over the past 7 years, olive oil consumption in Austria had a compound annual growth rate (CAGR) of 2.3 percent, a

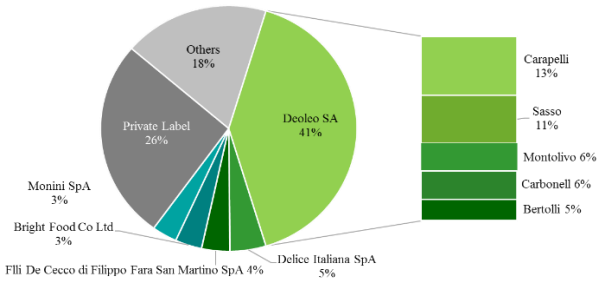
faster growth than that experienced in Germany (CAGR of 0.22 percent), and even in Portugal, where olive oil consumption seems to be decreasing (CAGR of -2.23 percent).

These figures translate into a retail value of the olive oil industry of €73.4 million in 2017, expected to reach €96.8 million by 2021 – which is equivalent to a CAGR of 5.69 percent over the forthcoming years. This corresponds to a retail volume of 8.9 thousand tons of olive oil in 2017, of which 0.7 thousand tons are organic olive oil (Euromonitor International, 2017e). Moreover, when compared with the overall oils and fats product category, olive oil posted the most dynamic current value growth as a result of being perceived as the healthiest type of oil by the majority of Austrian consumers (Euromonitor International, 2015).

2.2.2 | Competitive landscape

The main players in the olive oil manufacturing industry in Austria are Deoleo SA, Delice Italiana SpA, the Italian group F.LLI De Cecco di Filippo Fara San Martino SpA, Bright Food Co, Ltd and Monini SpA, alongside several private labels which together hold relevant market share, as it is depicted in **Exhibit 2**.

Exhibit 2 | Olive oil competitive landscape in Austria (Euromonitor International, 2017f).



Deoleo SA is a Spanish multinational enterprise, world leader in sales of bottled olive oil (Deoleo S.A., 2017). Even though this firm is currently in financial distress, it is the owner of the five brands with the largest market shares in the Austrian olive oil market, namely Carapelli, Sasso, Montolivo, Carbonell and Bertolli, that together account for 41 percent market share. Apart from olive oils, Deoleo also commercializes seed oils, table olives, vinegar and sauces.

Second in the market comes Delice Italiana SpA, the Italian company owner of the popular brand Conte de Cesare, with 5 percent market share, followed closely by F.LLI De Cecco di Filippo Fara San Martino SpA. The latter is an Italian group that specializes in the production of pasta (F.LLI De Cecco di Filippo Fara San Martino SpA, 2017). Its brand, De Cecco, holds 4 percent market share of the Austrian market.

In 2014, Bright Food Co Ltd., a Shanghai-based state-owned multinational and China's second largest food conglomerate (Bright Food Global, 2017), acquired a majority stake in the Italian olive oil group Salov, and is currently the owner of Filippo Berio, which holds 3 percent market share in the industry. Finally, Monini, with 3 percent market share, is owned by Monini SpA, an Italian company specialized in the production and sale of olive oil (Monini SpA, 2017).

Yet another important player in this industry is the group of private labels, which already controls 26 percent of the market. While it is true that olive oil private labels' market share in other Western European economies is higher (69 percent in Germany, and 30 percent in Portugal), consumers in Austria have got used to place a great amount of trust in private label products (Euromonitor International, 2016b). This is the result of retailers' pronounced efforts to improve the quality of their labels and to provide them with a more sophisticated image. Due to a strong acceptance of and high level of trust in private label products, leading retailers in Austria have managed to continue gaining share not only on the budget, but, in particular, in the mid-priced range of products. Specifically, the retailers who invest more in private labels are the ones with the largest market shares in the grocery retailing industry, namely Rewe International AG and Spar Österreichische Warenhandels AG.

The former holds four olive oil private labels, namely Billa, Ja!Naturlich, Merkur Immer Gut and Merkur Selektion. Ja!Naturlich is a brand of organic olive oil and it is sold across supermarkets, hypermarkets and forecourt retailers at an average price of €15.32 per liter. Among the remaining brands, Billa is sold in Billa outlets at an average price of €12.99 per

liter, and Merkur Immer Gut and Merkur Selektion are sold in Merkur retailing spaces at an average price of €11.99 and €18.97 per liter, respectively.

In turn, Spar Österreichische Warenhandels AG holds four olive oil private labels: S-BUDGET, Spar, Spar PREMIUM and Spar Natur*pur. Overall, these are sold at an average price point of €9.65 per liter, with S- BUDGET as the low-cost label sold at an average €5.32 per liter, Spar at €8.32 and Spar Premium at €11.99. The most expensive private label in the portfolio is Spar Natur*pur, a brand of organic olive oil which sells at €12.98 per liter, highlighting the existing demand trend for healthy and ethically-charged products.

In what concerns the remaining leading retailers, M-Preis and Lidl have no private labels available in their online stores, and Hofer and Penny Market do not sell groceries online, which limits the information available to perform the analysis.

Moreover, according to the team analysis, the average price of olive oil offerings in the Austrian market is €12.56 per liter. These offerings include classic, Extra Virgin, Virgin and cold-pressed olive oil, mostly of Italian and Greek origin. The average price of labeled brands is slightly higher than that of private labels - €12.72 and €12.13 per liter, respectively.

Lastly, as it is possible to ascertain by the brief description of the industry players displayed above, competitors in the industry are largely diverse. Large multinationals compete with smaller companies, such as Delice Italiana SpA. Companies specialized in the production and sale of olive oil, as is the case of Monini SpA, share a marketplace with others that are not. And branded companies contend directly with several private labels for consumer preference.

2.2.3 | Buyer profile

Grocery retailers capture 98 percent of the edible oils retail value in Austria (Euromonitor International, 2017b). Modern grocery retailers, specifically, generate 94 percent of this value, and since these retailers largely outperform the remaining grocery retail channels, the analysis

that follows will focus on them. These include convenience stores, discounters, forecourt retailers, hypermarkets and supermarkets.

In 2016, modern grocery retailers' sales value was of approximately €24 billion, with the top five companies holding a combined 76 percent of the market. Accordingly, the concentration of the grocery retail environment has been increasing since 2012, and it is expected to continue. Following the social trends unraveling in the country, modern retailers have started to work with smaller, regional suppliers for higher quality products, and have invested in adapting their private labels, which continued gaining share in the budget and the mid-priced product ranges. From the perspective of a retailer, a continuing shift towards private labels and discounters is expected to place increasing pressure on unit prices (Euromonitor International, 2017c).

The five leading modern grocery retailers in Austria are Rewe International AG, Spar Österreichische Warenhandels AG, Hofer KG, Lidl Austria GmbH and M-Preis Warenvertriebs GmbH. The leader, Rewe International AG, follows a broad multi-brand strategy with two supermarket brands, Billa and Adeg, its Merkur brand of hypermarkets, Penny Market in discounters, and Billa Stop & Shop and Merkur Inside in forecourt retailers. Although Spar Österreichische Warenhandels AG does not have such strategy, it has been able to stay close to Rewe International AG with strong supermarket and hypermarket brands such as Spar, Interspar and Eurospar. Both Hofer KG and Lidl Austria are focused on discounter retailers, with the brands Hofer and Lidl, respectively. These leading discounters continue to record the best growth in existing floor space. Finally, although M-Preis Warenvertriebs GmbH is a regional retailer, its successful strategy focused on regional ties and longstanding cooperation with smaller regional suppliers empowered it to defend a strong position against the top four grocery retailers in the western part of Austria. The relative rank of each brand hasn't changed since 2013, Hofer remaining the market leader, followed by Billa, Spar, Merkur and Interspar.

Concerning competition from other channels, despite the growing number of players and their coverage, the online channel does not seem to pose a serious threat to grocery retailers. The most prominent brands online are click-and-brick stores such as Billa, while no pure internet player exists. Although the online grocery retailing industry experienced strong growth in 2016, Austrians still show to prefer store-based grocery retailers (Euromonitor International, 2017c).

2.2.4 | Consumer profile

After an abrupt decline in 2014/15, consumer confidence has picked up gradually, mostly driven by the country's improved economic performance and by recent tax reforms (Euromonitor International, 2017a). As a result, household disposable income is expected to increase and to spur growth in consumer spending. According to a survey conducted by Generali Versicherung AG, consumers say they intend to spend more on health and wellness products and services. Ensuing these findings, an effort to characterize the Austrian consumer yields the results that follow.

On the one hand, a pattern of health-consciousness in the younger layers of the demographic pyramid has had a direct impact on Austrians' dietary concerns and daily eating practices. Hanni Rützler, Vienna-based nutritionist and food trends expert, observes that young people are increasingly getting together to cook, and predicts that food and eating will be approached with greater respect in the future (Alexander, 2012). As a result, these younger consumers in Austria are expected to continue to opt for convenient products that still provide good taste and healthy nutrition.

On the other hand, over 60 percent of Later-Lifers (cohort group which includes those aged 60 years old or older) are either overweight or obese (Euromonitor International, 2017a). This is often the result of lifelong unhealthy diets, as many Later-Lifers still prefer traditional dishes containing high levels of fat, sugar and salt. A growing awareness of the issue has led to increased demand for healthier foods in this demographic segment, too.

Regardless of age, with health and wellness options in food increasing year after year in Austria, consumers are becoming overwhelmed with the variety of choices available (Euromonitor International, 2017d). This is causing them to opt for products that are natural or that feature naturally healthy ingredients such as superfruits and ancient grains, or simply for foods that are known to be naturally healthy, like honey or olive oil. These products are perceived to be free of any artificial ingredients and, as such, continue to be regarded as the healthiest and most balanced choice.

2.2.5 | Industry attractiveness

Porter's Five Forces analysis as applied to Austria.

With an Herfindahl-Hirschman Index (HHI) of 2,709, the olive oil industry in Austria can be described as highly concentrated (Euromonitor International, 2017f). However, even though competitors in the olive oil market are largely diverse, product differentiation remains low. In fact, while there is a wide variety of edible oils available in Austria - including a vast offer of other seed and vegetable oils -, the olive oil offer is much narrower: mainly classic, Extra Virgin, Virgin and cold-pressed olive oils of Italian and Greek origin. To this adds excess capacity, sometimes up to ten times current production, and fair to moderate exit barriers arising from contractual bonds with distributors and retailers, contributing for **moderate rivalry** in the Austrian olive oil industry. Internal rivalry can also be explained by the pressure exerted by the remaining forces treated by this model, as it will be discussed below.

Olive oil quality, grading and labeling remain voluntary in many countries. Nevertheless, the E.U. has strict, legally enforced regulations, and certain countries have similar, albeit voluntary, standards (Cook & Koch, 2015). The major regulatory barriers to entry in Austria emerge from these provisions under the E.U. law that are intended to "improve the quality of olive oil, simplify the rules and implement more effective monitoring" (European Commission, 2002). In line with these, standards in Austria were adopted to improve analysis methods and to set

procedures for the establishment of testing panels. Even though these regulations do not present material constraints to companies already operating in the E.U., they may present relevant barriers to other international entrants because they have a direct impact on the magnitude of capital requirements for entry – the implementation of production technologies and methods of analysis and sampling compliant with industry regulations is highly expensive. However, if one considers that the most powerful players in the global industry already operate in Europe, this barrier may not present itself largely significant. Nonetheless, capital requirements can also be inflated as a consequence of this industry's low product differentiation, in the sense that new entrants would have to spend heavily on promotion to achieve brand awareness and goodwill among a consumer mass that relies on a few set of familiar brands.

Moreover, the high concentration of the industry, allied to its low margins, contribute to a low likelihood of retaliation by established firms. Indeed, the largest market share incumbents are not likely to be threatened by a new entrant, and even if so larger sales volume renders price cutting more undesirable for these companies. In turn, those with smaller market shares do not have the scale nor the monetary resources to retaliate by aggressive price cutting, increased advertising or sales promotion. All these factors together add to **low threat of entry** in the Austrian olive oil market.

Moving on, given that the Austrian market is not one with a distinctive olive oil tradition as are the Mediterranean markets, it is particularly important to consider the threat of substitute products. Conversations with Austrian nationals landed that olive oil is used both as a cooking oil and as a seasoning. In line with this, substitutes may include other cooking fats - such as other oils, butter, margarine and spreads - and other seasonings - such as cooking sauces, salad dressings and other table sauces. Both categories of substitutes encompass simple products, which performance differences are relatively easy to discern, and so the extent of substitution on the basis of price performance will be larger.

Let us first consider the 'cooking fats' category of substitution. Both butter, margarine and other spreads are widely available, and in greater variety than olive oils: there are various kinds of fats (e.g., of animal or vegetable origin) with different flavors (e.g., butter-flavored, or with herbs, olive oil, walnut oil and sea salt), created for different purposes (e.g., roasting, frying, baking or cooking in general) and even for different dietary concerns (e.g., anti-cholesterol, semi-fat, lactose- or gluten-free). Moreover, they are sold at a price point lower than that of olive oil, as the average price point for butter is around €12 per kg/liter, and €5.70 per kg/liter for margarine and spreads, compared with €12.56 per liter for olive oils.

Now looking at the 'seasonings' category of substitution, this is the product category that fills more retailer shelf space. The variety of not only products, but also brands available is astonishing, and these products are generally sold at a price point lower than that of olive oils. The average price point for sauces and dressings is €7.60 per kg/liter, compared with €12.56 per liter for olive oils. One powerful substitute for olive oil as a seasoning is still to be discussed: vinegar. The product offer in Austria is primarily comprised of balsamic vinegar from Modena, Italy, and *condimento bianco*, an Italian mild-fruity vinegar; apart from that, wine, herbal and apple cider vinegar are widely available. The average price of these products is of around €9.30 per liter.

As it is possible to ascertain, not only the lack of cultural attachment to olive oil points toward a high buyer (and consumer) propensity to substitute, the price performance characteristics of substitute products seem to indicate that there is **high threat of substitution** in the olive oil market in Austria.

Now regarding the industry suppliers, these are the ones extracting the olive oil and selling it to the global players in the olive oil manufacturing industry. Olive oil itself usually accounts for up to 90 percent of the final product's total cost, and, given that this raw material is traded globally as a commodity and indifferent as to whether the regional quality of the olives may

vary year-on-year, there is low product differentiation. So, there is high buyers' price sensitivity since olive oil is the highest-cost input in olive oil manufacturers' operations and it is a commoditized product. It is also important to acknowledge that most olive oil manufacturers source globally, from a highly dispersed network of producers. The size and concentration of these producers is very limited relative to buyers'. In addition, information on olive oil prices is widely available and easily accessed. Thus, olive oil manufacturers can easily assess bulk olive oil quality and price performance and trade suppliers since switching costs are low. Indeed, according to the testimony collected, each year suppliers tend to change to respond to differences in product quality. Finally, as suppliers lack the ability to forward integrate – due to a deficit of competences on blending and marketing, which requires skills that are utterly different from those involved in planting and maintaining olive groves -, the industry players' bargaining power relative to suppliers is high, and, to conclude, there is **low suppliers' power** in the olive oil industry in Austria.

Lastly, as it was previously explained, this industry's major buyers are modern grocery retailers. In Austria, the grocery retailing industry is highly concentrated, with the top five players holding a combined 76 percent value share by the end of 2016. Several implications follow. Firstly, the number of players with relevant market share is low. High concentration also leads retailers to gain control over prices. Grocery retailers juggle not only with external suppliers, but also with their own private labels, which have been increasingly important and surely demonstrate buyers' ability to backward integrate. As such, they are price sensitive and very selective with the products and brands they choose. Moreover, as it was previously mentioned, product differentiation in the Austrian market is relatively low, which adds to buyers' price sensitiveness and, simultaneously, lowers their switching costs. Together with the fact that olive oil retailers largely rely on this category of buyers to reach the consumers and competition is intense, the difficulty of negotiating favorable deals with buyers increases, and so does buyers'

bargaining power. In conclusion, with few buyers, who are price sensitive and have large bargaining power, the **buyers' power is high**.

2.2.6 | Concluding remarks

The Five Forces analysis of the olive oil industry in Austria does not point to an undoubtedly attractive marketplace to enter, with **i)** low threat of entry, **ii)** high threat of substitution, **iii)** low suppliers' power, **iv)** high buyers' power and **v)** moderate internal rivalry.

However, olive oil consumption and, in turn, the industry's retail value have experienced sustained growth in the past years, and the increase in consumption has been more encouraging in Austria than in its peer market, Germany, and even in Portugal.

Moreover, it is true that the direction of horizontal forces is not expected to alter. Suppliers' power is expected to remain low since it is largely driven by regulatory constraints and others imposed by common practices in the industry. Also, recent consolidation movements predict higher industry concentration downstream in the future and point toward high buyers' power still. However, there has been a concerted effort to promote higher product differentiation industry-wide, primarily foreboded by private labels. This effort will contribute to increase marketing-related capital requirements, especially in terms of product development, and ease, even more, the threat of entry in the industry. More importantly, the health and wellness trend in Austria is expected to remain strong and to keep pushing consumers towards olive oil, a product known to be naturally healthy. This general tendency is projected to accelerate as brands invest in product differentiation, since the current lack of different options to choose from may be a strong demotivator for consumers (especially considering that the product and line range of substitutes is very much wider than that of olive oils). Hence, the threat of substitution is also expected to decrease, and positively contribute to this industry's attractiveness in the future.

3 | Company analysis

3.1 | Value proposition

Even though Gallo has recently launched some premium product offerings such as "Gallo Moonlight Harvest" and "Gallo First Crop", Gallo is a brand positioned to serve the mass market. In its own words, its aim is "to bring olive oil into every nation's diet plans", and get them "to know more about the benefits of this 'liquid gold' and to understand how it can be a part of every cuisine" (Gallo Worldwide, 2017). So, it is possible to ascertain that Gallo's value proposition is to offer an outstanding olive oil that can be present in every household.

3.2 | Value chain

In order to better understand the company, its procedures, how it creates added value, and how it intends to achieve its value proposition, a Value Chain analysis was performed.

In what concerns **inbound logistics**, Gallo does not own olive groves, mills or refineries. Gallo is, in fact, an olive oil blender and a marketer. Every season, Gallo's envoys travel the world to analyze and select the best olive oil. With olive oil sourced from a large and dispersed network of suppliers, it is Gallo's widely publicized "mastery in blending" that ensures that constant flavor profiles are obtained by mixing samples of different olive oil batches. Even though Gallo is not directly involved in upstream extraction activities, its high-quality standards determine that the company monitors the whole production process (Dias, 2014), by ensuring that suppliers perform in accordance with its rigorous standards in crucial stages of the process. Transportation of the olive oil to Gallo's facilities is usually part of the suppliers' obligations.

Regarding **operations**, Gallo owns one single facility in Abrantes, Portugal, with an annual production capacity of 30 thousand tons of olive oil. On average, this facility receives over 5,000 different olive oil samples every year from dozens of partner producers. Upon receipt, these samples are subject to quality tests which, due to the company's high-quality standards, result, according to company statistics, in a rejection rate of approximately 70 percent. After

sampling, the olive oil is subject to a filtering process, and samples from each batch are collected and sent to the laboratories for further testing. Once approved, these samples are also used for blending in the laboratories, which will then send orders for production with the share of each batch to mix in order to produce each type of olive oil. After blended, the olive oil is bottled. Between each production cycle, the containers are cleaned using oil with different acidity profiles, so that residues in the containers are removed and contamination is prevented. Furthermore, to reassure the quality and taste of the bottled olive oil, the first bottle produced in each production cycle is sent for further analysis. The whole operation demonstrates Gallo's commitment with both obtaining a distinct yet consistent final product, as well as complying with legal requirements for producing olive oil.

In what concerns **outbound logistics**, the company is responsible for storing and distributing the final product to resellers. The bottled olive oil is stored in Gallo's facilities, in a warehouse with controlled temperature (around 15°C to 16°C, to allow for the decantation of solid particles that result from the extraction process). Even though Gallo does not own a vehicle fleet, it works directly with domestic and foreign logistics operators to deliver the final product.

As most companies, Gallo counts on external parties to assist on communication and **marketing** activities. Nonetheless, Gallo's Marketing department is responsible for devising the overarching strategy and briefing the external creative agency(ies) selected to conduct the different activities. Aligned with these marketing activities, Gallo also offers a **post-purchase services**, wherein it tries to reinforce the value offered to consumers through, for instance, an "Inspire Me" section in its website which is fully dedicated to engaging consumers by teaching how to use the olive oil and enjoy the pleasures it has to offer.

In what concerns support activities, **procurement** is of crucial importance for Gallo's activities, as at the core of Gallo's value proposition also lies its selection process. As explained, this process is heavily information-driven: not only is olive oil in bulk traded globally as a

commodity and its quality and hygiene strictly audited, Gallo also sends envoys to test for product quality and catalog olive oil around the world based on sensory and physico-chemical profiles (Costa, 2014). This helps in redesigning each year's supplier network to take advantage of regional differences in raw material quality. Overall, procurement of olive oil constitutes the firm's major cost – it accounts for up to 90 percent of total costs, and 82 percent of unit costs.

Human resources management is also an essential supporting pillar of the company's activities, which relies on the expertise and know-how in olive oil selection, tasting and blending, particularly that of its certified panel of twenty-one people who perform organoleptic analysis on olive oil samples twice a day. Policies evolve around hiring the best experts, and promoting the retainment and development of this secular expertise.

The **infrastructure** is also an important part of Gallo's value chain. Gallo relies on several supporting departments in order to fulfill consumers' expectations on its products at a minimum cost. Across departments, technology has a crucial role to play. For instance, the company employs an exceptionally efficient bottling process, which severely reduces its costs, and its in-house tasting, quality and chromatography laboratories are highly technology-reliant. Besides, other mechanisms to improve efficiency prove to be of special importance to Gallo, due to its low-margins and its "Just-in-time" production strategy.

3.3 | Organizational resources

To better understand Gallo's resources and reach an accurate assessment of which should be internally leveraged to enter the Austrian market, a VRIO analysis was conducted. Key organizational resources were identified and evaluated in terms of value, rarity, inimitability and organizational embeddedness, the VRIO framework criteria.

In order to evaluate the organizational resources against these criteria, a competitive set of olive oil companies operating in Austria was considered. This set is composed of the industry players depicted in **Exhibit 2**, in the Industry analysis section.

The team analysis yielded that some of Gallo's resources, despite valuable, do not uphold sustainable competitive advantage. Let us first consider Gallo's **quality management** competence. The Victor Guedes factory is an ISO 9001 certified establishment, and both physicochemical and sensory laboratories in this facility received accreditation NP EN ISO / IEC 17025: 2005. These norms regulate the principles of quality management with an intense focus on the client. According to the company's website, "this referential is applied transversally across the company, involving all employees and promoting with them continued improvements, giving the consumer the assurance of quality products and processes" (Gallo Worldwide, 2017). It is indeed a valuable competence as it enables Gallo to create a high-quality product that is not only compliant with safety and quality regulations, but is also consistent year-on-year regardless the relative quality of inputs. Nonetheless, especially in an industry which is strictly regulated and audited, quality management cannot be considered rare. It is, in fact, a requisite to operate in the industry, which only provides competitive parity.

Given Gallo's international orientation, **internationalization management** is yet another organizational resource to consider. It is certainly valuable since previous experience in international markets works to reduce costs for the company as it pursues new international endeavors by learning from past successes and mistakes. However, it is not a rare competence, as most industry players in Austria are foreign. In fact, some of the leading business groups of the sector at a global level, namely Deoleo SA and Bright Food Co, Ltd, sell olive oil in Austria. Therefore, this resource only provides temporary competitive advantage.

Nonetheless, other resources were found to be VRIO and thus to uphold Gallo's sustainable competitive advantage.

First, let us consider Gallo's **new product development** competence. It is valuable since it enables Gallo to rapidly respond to evolving demand by creating new product offerings adapted to changing market needs. Moreover, it is valuable because it allows Gallo to capture demand

through cross-selling as well. It is also a rare competence as the industry's leading companies have mostly undifferentiated, narrow product offerings, oftentimes limited to Extra Virgin olive oil. Moreover, the production of bottled olive oil entails material specific investments in technology and quality audit procedures, that may prevent the enlargement of the product offering. These circumstances render this competence particularly inimitable. The organizational embeddedness needed for this resource to be considered VRIO is also evident if one considers Gallo's extensive product portfolio and its track record of regular new product launches across all product categories.

Moreover, **brand management** is a valuable as well as a rare competence Gallo has become proficient in. As opposed to what seems to be common practice in the industry, Gallo does not focus its promotion efforts on its Mediterranean heritage. Rather, its mission promotes flavorful and healthy meals, a moto with which every person can relate with, regardless of country of origin. The brand management capabilities that produced this unique concept differentiate Gallo, increasing consumers' willingness to pay. This is presumed to be a rare competence considering the defined competitive set since, according to the representative of Aicep Portugal Global in Austria, most olive oil offerings tend to become blurred in the minds of consumers for no differentiating aspect can be discerned among differing brands. In light of this, brand management is also considered to be an inimitable competence of Gallo, since it is the result of an iterative and reinforcing relationship between the brand itself and the way it is managed and positioned in the minds of consumers. Finally, this competency is one which is also rooted in the organization. Since 1989, investment in brand promotion has been reinforced and Gallo's brand credentials continually strengthened through new product launching, the introduction of new packaging and the enlargement of the olive oil offering to include innovative concepts. Thus, brand management grants Gallo sustainable competitive advantage.

Sustainable competitive advantage is also provided by Gallo's **selection and tasting process**, alongside its **supplier network.** These enable Gallo to source a high-quality raw material and reduce costs in sourcing, especially since the firm benefits from advantages in the procurement process (first choice of olive oil and price reductions, for instance). This, in turn, contributes to produce a high-quality consistent product year-on-year. And even though Bertolli and Carapelli also apply similar processes in larger scales (Bertolli, 2017; Carapelli Firenze S.p.A, 2017), Gallo's process is heavily reliant on both the expertise of the people it employs and strict quality management procedures. Moreover, although the procurement method adopted by Gallo is common practice in the industry, Gallo's supplier network is also rare. Gallo has deep ties with its suppliers, and relationships so deeply attached to the company are hard to replicate and take a very long time to be established. Finally, both these resources are strongly embedded in the organization, supported by an in-house highly trained tasting panel, and a culture of partnership that is so rooted in Gallo's operations that the company buys olive oil to suppliers even when the crops are bad to keep the relationship "alive".

As for the **mastery in blending**, Gallo has a centuries-old craftsmanship as master blender, adequately supported by modern technology and in-house procedures which render this competence both rare and inimitable. Due to this accumulated know-how that results in different sampling and blending methods, its olive oils are distinguished with awards and recognized worldwide for their different flavor profiles, which are distinct and constant regardless of the year of production. Additionally, Gallo is organized to capture value from this resource: the whole organization is aware of this unique competence that has been improved throughout the years, which has only been possible due to very strict quality standards and excellent professionals. As a result, Gallo's mastery in blending is a VRIO resource which leads to sustainable competitive advantage.

One other resource which is worthwhile mentioning is Gallo's relation with Unilever Jerónimo Martins. Nevertheless, according to management, this relationship is purely capital-related, there are no synergies being exploited between the firms, and hence this resource cannot be considered valuable.

In summary, the organizational resources Gallo should harness to enter the Austrian market are new product development, brand management, its selection and tasting process allied to its supplier network, and its mastery in blending. These fulfill the VRIO criteria and uphold sustainable competitive advantage for Gallo.

4 | Concluding remarks: SWOT analysis

To sum up the situation analysis displayed in the previous sections, and understand whether Gallo has the resources to sustain competitive advantage in Austria, a SWOT analysis was performed and is depicted in **Exhibit 3**.

Exhibit 3 | SWOT analysis (Team analysis).

The company's strengths fulfill the VRIO framework criteria, meaning that within the examined competitive set, these uphold sustainable competitive advantage for Gallo in Austria. Additionally, Gallo's effective risk management of raw material price volatility was also considered a strength. Indeed, raw material price volatility, allied to relative rigidity of prices

which are usually set for yearly periods at the retailer level, would be considered a weakness if it were not for Gallo's ability to manage this risk effectively by harnessing its global supplier network. Furthermore, Gallo's weaknesses are not considered to be an obstacle when it comes to entering this new market, and are somehow common among olive oil manufacturers.

Overall, one can say that there are several opportunities Gallo can seize, and interesting trends that should be exploited by the company. Parallel to this, there are some potential threats that go beyond the company's control, and that could place Gallo at risk. However, one can assume that with a proper planning strategy the company is likely to be prepared to address these adverse forces in the future. In fact, some of the identified threats could also be considered opportunities. For instance, the rising popularity of barbecuing could be an opportunity for Gallo to launch new products. A similar situation was observed before in Venezuela, where the company successfully launched a popular tarragon infused olive oil to use in barbecues.

All in all, one can say that Austria is an attractive market for Gallo to enter. And a concerted effort of industry players to promote increased product differentiation is expected to further contribute to this market's attractiveness, reinforcing Gallo's aim to enter the Austrian market, especially considering that Gallo has the resources to differentiate its products in a manner that favorably exploits this tendency.

II PART – Recommendations

Following the situation analysis, it is time to assess which strategy might lead Gallo to succeed in the Austrian market. Thus, in this second part of the report, the insights provided by the situation analysis are wielded to provide valuable and actionable recommendations that offer Gallo the best chances of success there. These recommendations are divided into four main vectors: **Entry mode**, which details the best approach to the market, how to negotiate with foreign market intermediaries and what triggers may change that initial approach; **Marketing**, where it is defined which consumers to target and how to differentiate Gallo from the

competition, and the tactics necessary to accomplish this are established; **Operations**, where the main functional activities needed to enter the market will be detailed; **Financials**, where an evaluation of the project's profitability is performed through scenario development; and **Implementation**, where a roadmap of activities to perform is detailed.

5 | Entry mode choice

5.1 | A summary framework for foreign market entry mode choice, *by Ana Rita Rocha*

A growing number of research suggests that a critical element in achieving superior performance in foreign markets is entry mode selection (Rhoades & Rechner, 2001). For that reason, it is crucial to develop a consistent methodology for entry mode selection that increases Gallo's chances of achieving superior performance in each foreign market of choice. So as to accomplish that, the determinants of entry mode choice are examined in this section of the work project, a framework for foreign market entry mode selection is presented and insights regarding the Austrian market are applied to generate an actionable recommendation regarding the entry strategy Gallo shall use in Austria.

A review of the literature will first establish a basis for framework development. Second, the framework is displayed, and the determinants of entry mode selection briefly explained. A discussion of the context of the Austrian market and Gallo's resources will follow to provide the entry mode Gallo shall use to enter the Austrian market. Lastly, framework limitations are addressed as boundaries of the results yielded.

5.1.1 | Literature review

Normative decision theory suggests that the choice of foreign market entry mode should be based on a trade-off between risk and return (Agarwal & Ramaswami, 1992). Yet, little direct mention of either risk or return is made across literature on the subject (Anderson & Gatignon, 1986). Instead, much of international business literature suggests each entry mode is consistent

with a different level of control and resource commitment (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Kim & Hwang, 1992; Woodcock *et al.*, 1994).

According to Anderson & Gatignon (1986), control allows for capturing higher returns. However, it also entails commitment of resources, which impairs the firm's ability to withdraw should the choice turn out to be suboptimal. Control, thus, is the focus of entry mode literature because it is "the single most important determinant of both risk and return" (Anderson & Gatignon, 1986), and entry mode choices can be viewed as a trade-off between control and the cost of resource commitment. In line with this view, one can distinguish three overarching types of foreign market entry mode, depicted in **Exhibit 4**.

Exhibit 4 | Feasible set of foreign market entry modes categorized (Individual analysis).

Note: [1] Intermediate modes are distinguished from low-control ones because they are primarily vehicles for the transfer of knowledge and skills between partners. They are also different from high-control modes in that ownership and control can be shared between the parent firm and a local partner.

Even though the vast majority of previous literature on the subject agrees with this view, an extensive array of theories and conceptual frameworks on foreign entry mode decision were developed over the years (Andersen, 1997).

In the 90s, applications of the **Transaction Cost approach** became fairly common (Andersen, 1997). According to Madhok (1997), this approach is primarily concerned with the selection of the entry mode which minimizes the transaction costs associated with the exploitation of a firm-specific advantage in a foreign market. Scholars have found that when the transaction costs of finding, negotiating and monitoring a partner firm are low, firms tend to rely on lower-control, export modes to serve the target market. But as these transaction costs increase, firms tend to

switch their preference to higher-control entry modes. Firms that opt for less efficient alternatives are said to underperform (Brouthers, 2002). However, other authors suggest that transaction cost-based choices may not lead to the best performance because they do not account for the revenue, or value enhancement potential of each alternative (Brouthers, 2002). In the early 2000s, scholars began extending transaction cost theories to include institutional and cultural context variables (Brouthers, 2002). These variables focus not only on location-specific costs, but also on the market potential of investments. Brouthers (2002) found that firms that selected entry strategies predicted by this extended model reported significantly better performance than did firms whose choice could not be predicted by it.

In the 1970s, however, Dunning claimed that no single approach was able to explain firms' entry mode decisions (Hollenstein & Berger, 2015). He proposed an **Eclectic Theory** which stipulated that the choice of an entry mode is influenced by a firm's ownership advantages, the location advantages of a foreign market, and internalization advantages of integrating activities within the firm (Dunning, 1979).

More recently, the **Organizational Capability perspective** has been developed to explain entry mode choice (Andersen, 1997). Madhok (1997) presented it as an alternative to the transaction cost approach by focusing on the value of the firm's capabilities in terms of deployment and development of its knowledge base. This perspective holds that, in the search for rents, firms seek to conduct business in a manner which best preserves or enhances the value generated by its resources (Madhok, 1997). Therefore, the compatibility between the firm's routines and those needed to succeed in a particular market are critical to determine the appropriateness of a certain market entry strategy (Johanson & Vahlne, 1977; Madhok, 1997).

5.1.2 | Framework description

The framework here presented **[Exhibit 5]** is intended to tractably guide Gallo's choices regarding foreign market entry mode. It is a map that systematizes simple criteria Gallo can

track to define the best entry strategy in each market of choice. For that purpose, it draws on scholar literature on the phenomena entry mode selection and key learnings gathered throughout the scope of this work project. These criteria can be broadly categorized into three types of considerations, which will be briefly explained below. But first, two limitations to the scope of this framework must be mentioned.

First, given the lack of available information regarding away-from-home olive oil consumption and HoReCa sales, only retail customers were considered.

Second, the scope of the framework solely includes low-control modes of entry. Industry-specific evidence exists that supports this decision. Exporting is the most well-established way for agro-food firms to operate in international markets (Fernández-Olmos & Diez-Vial, 2014), and a study on Italian olive oil firms produced similar results: the respondent firms approached foreign markets primarily through exports (Santi, 2016).

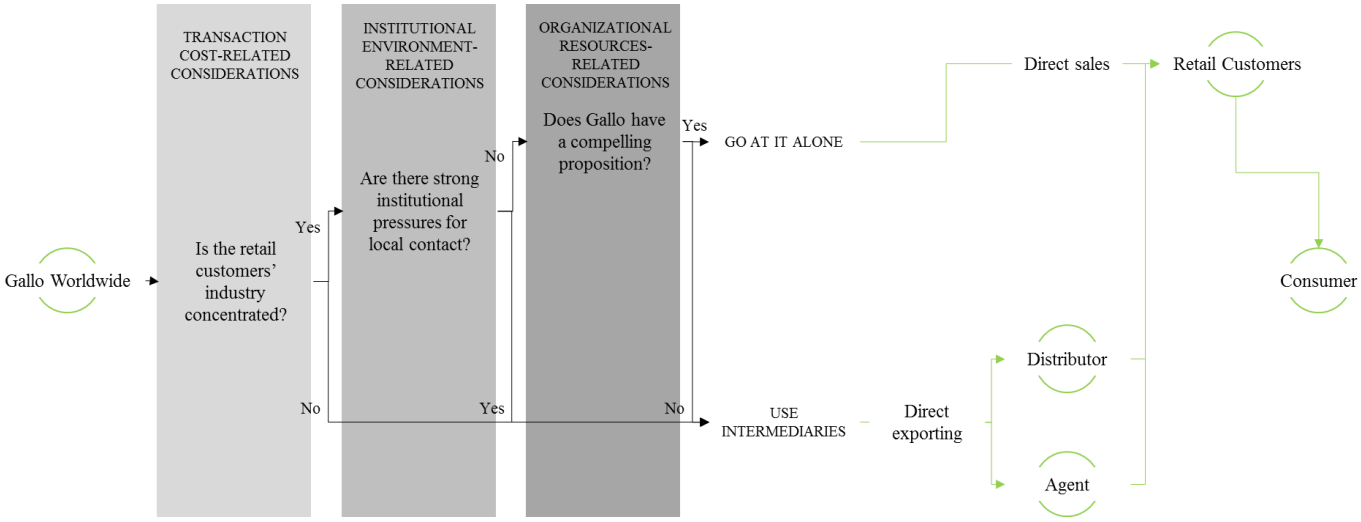
Specifically, only direct exporting modes were considered for the purpose of constructing the framework. That is because olive oil taste is one of the attributes that most influences consumer purchase choice (Giudice *et al.*, 2015), hence the adaptation of olive oil to local tastes has a direct effect on the firm's export performance (Fischer, 2002). However, Gallo seems to lack knowledge on what those tastes are outside its home market. Although its product portfolio may differ in each foreign market, the product itself is created using standard flavor profiles conceived by a tasting panel fully comprised of Portuguese experts. These flavor profiles are only adapted in terms of intensity, not blending, which seems to limit the firm's ability to capture idiosyncratic tastes of each foreign market.

Well, direct exporting - wherein the focal firm handles export activities and is in direct contact with the first intermediary in the foreign market, usually a distributor or agent, who is responsible for the operationalization of the downstream value-chain activities - allows firms to enhance their existing resources by accessing valuable knowledge about foreign markets.

This pertains not only to consumer tastes and preferences, but also to national market rules and management practices (Fernández-Olmos & Diez-Vial, 2014). The access to this market intelligence serves to overcome Gallo's shortcoming. Conversely, contracting a domestic intermediary would be less preferable since that role is presumed to be better performed by foreign local firms (Lehtinen *et al.*, 2016).

Accordingly, the feasible set of entry modes outlined in the framework includes direct sales to clients (a "go at it alone" strategy) and direct exporting modes (a "use intermediaries" approach), as depicted in **Exhibit 5**.

Exhibit 5 | A summary framework for foreign market entry mode choice (Individual analysis).



Well, the choice of entry mode revolves around how to deliver the product to the customer in the host market in the most profitable manner. Therefore, first, it is crucial to determine who those customers will be. In what concerns retail clients, one way to do so is to understand which types of grocery retailers reap the largest share of the olive oil retail value in the target market. Oftentimes, such information is not available, in which case a higher-level industry can be used to perform the analysis – the edible oils or the grocery retail industry, for instance. A similar reasoning was applied before in the Market audit section.

Once determined who Gallo's customers will be, Gallo needs to opt for an entry mode approach – either direct sales to customers or direct exporting to the country. Previous literature on the

subject suggests that three categories of determinants influence the choice between these two options (He *et al.*, 2013; Hessels & Terjesen, 2010). These are transaction cost-, institutional environment- and organizational resource-related determinants. A brief explanation of how these factors are to guide Gallo's entry mode decision follows.

Let us then start from the left end side of the map. Where the retail customers' industry is concentrated, a limited number of retailers controls a large share of the market retail value. In these circumstances, Gallo should consider approaching these retailers directly, bypassing intermediaries in the foreign market. This option reflects **transaction cost-related considerations** previously addressed by Peng & York (2001), who state that export intermediaries must lower their clients' export-related transaction costs relative to those of direct sales to ensure they choose to use intermediation. Indeed, if the retail customers' industry is fragmented, the costs incurred to find, select and negotiate with several retailers would be imposing, likely higher than those associated with the search, negotiation and monitoring of a partner, such as a distributor or an agent. These intermediaries, in turn, can leverage upon their existing relationships and knowledge across multiple client firms and products to address retailers on behalf of Gallo. In this way, they are able to explore economies of scale and scope in foreign distribution that individual exporters cannot match (Peng & York, 2001). Therefore, where the retail customers' industry is fragmented, direct exporting modes should be employed. Should it be concentrated, other factors need to be taken into consideration.

The second factor to consider is the institutional environment in the host market – that is to say to contemplate **institutional environment-related considerations**. Scott (2014) identifies three pillars of institutions companies should be attentive to: regulatory, normative and cultural systems. These are identified as the key forces defining courses of action open to firms by limiting and empowering legitimate behaviors. Specific instances of these pillars include regulations for olive oil authentication that may differ among national and international

organizations (Bajoub *et al.*, 2016), differing national market regulations and business practices, and differences in language and culture. Where these systems are perceived to be significantly different from the home market, resorting to intermediaries will be more desirable because they will enable Gallo to improve its existing resources by accessing intelligence about the foreign market (Madhok, 1997). In contrast, where the systems are institutionally close, direct contact with retailers may be a viable option.

However, not only differences in the institutional setting have a direct impact on the choice of export channel. Objective institutional considerations also influence this choice. Indeed, there may exist regulatory, normative and/or cultural practices that, regardless of similarity to those existent in Gallo's home market, create pressure for local intermediation. These may include the frequency and depth of inspections in the host market (GOV.UK, 2017), the quality of the contracting environment (Bernard *et al.*, 2011), management risk attitudes, the reliance of business on relationships, the easiness of access to distribution channels, among other regulatory and business or cultural national practices.

Thus, when considering institutional pressures, one must weigh both a relative component – that of distance comparatively to the home market -, and an objective component – that reflects specific regulatory, normative or cultural practices that demand for the existence of a partner on the host market. Where these pressures are strong, Gallo should resort to intermediaries in the foreign market. Otherwise, direct sales may be the most desirable avenue to pursue.

The final factor to consider is whether Gallo has a compelling proposition to present to its customers. Even where the customers' industry is concentrated and there are no material institutional pressures for local contact, the competition for shelf space is fierce and retailers have established relationships with suppliers. Hence, it is crucial to clearly identify a compelling proposition for a retail customer to switch suppliers. This compelling proposition must result from a match between the firm's resources and the host market's characteristics, as

it is held by Madhok (1997). Thus, this factor reflects **organizational resource-related considerations**.

So as to ascertain whether Gallo may create a compelling proposition for retailers, one has to equate the company's VRIO resources with the customers' needs in terms of both cost, brand and product assortment, and private label offering. If Gallo is able to construct a compelling proposition given the characteristics of the target customer, direct sales to the central purchasing department of retail clients is the most desirable approach. Should it not be the case, Gallo should use local intermediaries to leverage on their pre-established contacts with retail chains.

5.1.3 | Framework application: Gallo in Austria

As it was previously mentioned, focus will be directed towards low-control entry modes. Such focus suits the decision to enter the Austrian market because, even though the Austrian olive oil retail market is growing – it registered a CAGR of 5.89 percent over the past 7 years, already surpassing Euromonitor's projections for 2017 by €2.9m (Euromonitor International, 2015) -, it is not certain to have enough potential that the firm can recoup the overhead of a higher-control entry mode. When that is the case, higher-control modes are not worth considering (Anderson & Gatignon, 1986).

The first step in applying the framework is to determine who Gallo's customers will be. In Austria, modern grocery retailers reap the largest share of the oils and fats retail value – 94 percent as of 2015 (Euromonitor International, 2015). Since these retailers largely outperform other grocery retail channels, these should be the customers to target in the Austrian market.

"*Is the retail customers' industry concentrated?*" The top five grocery retailers in Austria held a combined 76 percent value share by the end of 2016 (Euromonitor International, 2017c). This points to a highly concentrated downstream industry, and to the possibility of selling directly to retailers, bypassing any intermediaries.

Now, "*are there strong institutional pressures for local contact?*" The dire need for an established contact network due to a heavy business reliance on relationships is the main explanatory factor for why direct sales are not common in Austria. Austrian companies prefer to have someone close to contact and therefore to have a local partner is crucial (GOV.UK, 2015). In fact, modern grocery retailers in Austria prefer to procure from local central buyers, and although they sometimes use foreign ones, these are mainly German (USDA Foreign Agricultural Service, 2013). Moreover, whereas for core product categories retail chains have purchasing departments with local decision-making power, for other product categories purchases are customarily made to local distributors (Aicep Portugal Global, 2017b). Therefore, there is strong institutional pressure for local contact, and it is recommended that Gallo resorts to a local intermediary in the host market. This recommendation is supported by Aicep Portugal Global (2017a), which specifically suggests to use local distributors "to achieve maximum market penetration".

Even though institutional environment-related concerns render the use of local intermediation more desirable for Gallo, organizational resource-related considerations will also be explored with the purpose of fully illustrating the framework application methodology. So, "*does Gallo have a compelling proposition?*" Most Austrian companies have long-lasting relationships with their suppliers (GOV.UK, 2015), and where Austrian companies have a couple of reliable suppliers, they are unlikely to replace them on the basis of marginal cost savings (Aicep Portugal Global, 2017a). Therefore, a unique selling proposition Gallo could present would be to negotiate shelf space with modern grocery retailers in exchange for supplying olive oil for their private labels. Leading retailers in Austria are making pronounced efforts to improve the quality of their private label offerings and to provide them with a more sophisticated image (Euromonitor International, 2016b). In these circumstances, Gallo's resources would uphold its proposition by enabling the firm to source excellent quality inputs at a cost advantage (by

leveraging upon its supplier network) and blend an olive oil that meets retailers' standards (thanks to its selection and tasting process, and its mastery in olive oil blending). Moreover, the direct contact with retailers could serve to garner information regarding Austrian consumers' tastes and preferences in order to adapt the blending to the market.

5.1.4 | Results and limitations

In brief, it is recommended that Gallo uses direct exporting channels to enter the Austrian market, by resorting to a local intermediary in the country.

Nevertheless, it is important to recognize that the framework applied has its limitations. In an effort to devise an actionable approach to foreign market entry mode selection, the questions proposed may be over simplistic, and other factors than just the three explored may influence this choice. Moreover, the framework does not consider HoReCa customers nor higher-control entry modes, which may be desirable in contexts other than that of the Austrian market. In fact, this framework is constrained by the limited scope of this work project in that it only considers low-control entry modes, and it does not consider the whole spectrum of low-control entry modes available. The fact that it does not systematize the choice between distributors, agents and other direct exporting intermediaries may also be pointed out as a third limitation.

5.2 | Direct exporting channel choice

Funneling on the choice of direct exporting channel, two main options exist for Gallo: to either use a foreign market distributor or an agent. It is recommended to use the former because, even though distributors are usually more expensive - according to Gallo Worldwide's management, distributors margins are of approximately 15 percent, largely exceeding average agents' commissions of 3 percent -, they are more prone to make substantial capital investments that may be required in handling and selling food products. Investments in special transport and storage facilities (e.g., refrigerated trucks, storage conditions compliant with organic products) may have to be undertaken, and the olive oil may have to be repeatedly screened or rated for

quality at each stage in the food chain. Moreover, distributors, unlike agents, take title of the goods, finance the inventories and bear the risk of their operations. This is of particular importance because Austria is still an experimental market for Gallo and using distributors would be a meaningful risk mitigation strategy.

5.3 | Relationship between Gallo and distributors: A knowledge transfer framework, *by Elisa Abreu*

Gallo is generally highly dependent on other firms to sell its products. Needless to say, in international markets this interdependence becomes more evident, making it crucial to effectively manage the relationship with different intermediaries around the world. The company has multiple distributor agreements across the globe, which act as intermediaries between Gallo and its clients. In such circumstances, choosing the right distributor is one of the most critical decisions a manufacturer will have to make. Selecting a foreign distributor is time-consuming and expensive, but so are the consequences of making a wrong decision. Therefore, to minimize problems, companies should pursue a systematic approach in the partner selection process (Cavusgil *et al.*, 1995).

The focus of this analysis will be on distributors, and the intention is to create a framework that in agreement with the existent literature would help Gallo understand what is the ideal approach concerning knowledge transfer with distributors in different situations. The goal is to systematize the possible options Gallo has when it comes to the degree of openness it wishes to have in each case so that there is less complexity and more agility in the decision-making process.

This chapter will be organized as follows: Firstly, a literature review will provide theoretical background to build the framework. Afterwards, the aim is to build and describe the aforementioned framework. Finally, guidance regarding the Austrian market entry will be provided by applying the framework.

5.3.1 | Literature review

5.3.1.1 | Knowledge-based view

The starting point of this analysis is the *Knowledge-based View of the firm* (KBV) which according to Grant (1996) is an outgrowth of the Resource-based View of the firm, that highlights the strategic role of knowledge as the most important organizational resource to build competitive advantage. KBV suggests that firms are embodied by knowledge rather than tangible assets and that knowledge is a crucial productive resource that not only contributes to value added, but also economies of scale and scope (Grant, 1997).

5.3.1.2 | Knowledge creation and transfer: tacit *vs.* explicit knowledge

According to Grant (1997), the primary mechanism used to manage and integrate individual's knowledge in the firm is the process of transfer. The main issue regarding transferability of knowledge is related to the distinction between *tacit* and *explicit knowledge.* While explicit knowledge can be codified and communicated directly among individuals, tacit knowledge is only observable through its application, making it far more complex to be acquired by others. That is also because, in the case of tacit knowledge, there is only one repository for that knowledge which corresponds to the people directly involved in it (Grant, 1997). Thus, to transfer tacit knowledge implies interpersonal communication and active involvement between parties (Nonaka, 1994).

5.3.1.3 | Knowledge transfer: manufacturer and distributor relationship

Over the last years, many manufacturers have chosen to expand into geographically distant countries as a way to increase revenues. Quite often, to compete in these new markets, it is necessary to build strategic relationships with local intermediaries such as distributors (Redaelli, *et al.*, 2015).

Supply chain management literature suggests that whenever manufacturers depend on distributors to sell their products it becomes especially important to transfer knowledge between firms (Frazier, 2009). This process of knowledge transfer has been proved to positively

influence a product's performance and help companies overcome the increasingly competitive landscape they're inserted in.

According to Frazier (2009), there are six types of knowledge that can be shared among channel members – in which manufacturers and distributors are included: *physical distribution, marketing, personal selling, financial, customer service* and *strategic planning knowledge*. The amount of knowledge shared between partners depends if the role of the distributor is to *make demand* or *meet demand*. When there is the need to build brand preference, which goes far beyond the role of responding to existing demand, knowledge transfer will be much higher and will most likely involve sharing more types of knowledge. While explicit knowledge is necessary in every manufacturer-distributor relationship to perform basic activities, there are some situations in which tacit knowledge transfer becomes essential. That is, in meet demand situations physical distribution functions – which usually correspond to explicit knowledge – are more important, whereas in make demand contexts, there is the additional need to share other types of knowledge regarding product, marketing and sales – which tend to be tacit (Frazier, 2009).

5.3.1.4 | Exclusive dealing in distribution

Understanding how different contractual structures influence the characteristics of the relationship between manufacturers and distributors has been a study object among scholars. Specialized literature suggests that in exclusive dealing agreements there is more probability of existing 'relationalism' between partners as there is a mutual concern in what regards to developing cooperative mind-sets (Iglesias & Vázquez, 2001).

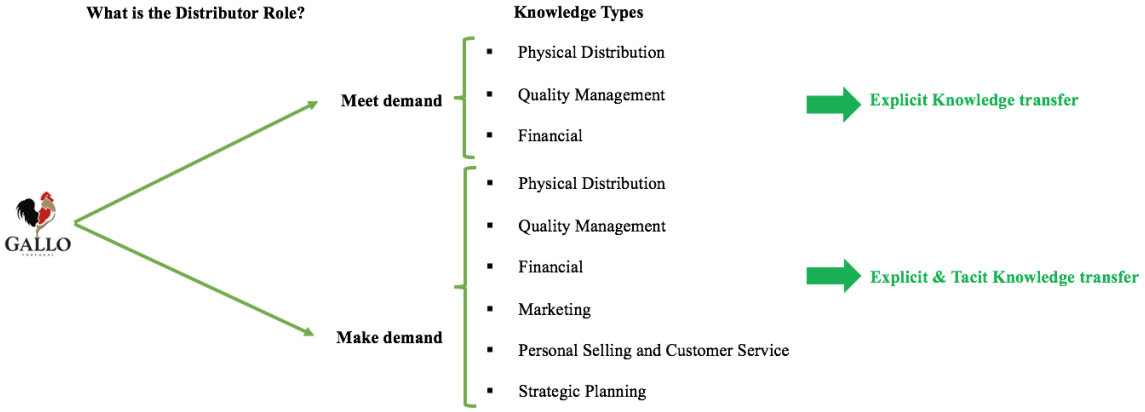
Moreover, because there is usually a high degree of inter-dependence between partners, one of the most important guidelines to successfully manage international distributors is to treat them as long-term partners, rather than mere market-entry vehicles. Therefore, granting exclusivity

to local distributors is a common way of ensuring that there is commitment from both the manufacturer and distributor sides (Arnold, 2000).

5.3.2 | Framework description

Despite the existence of several strategic partners Gallo can opt from when seeking new market opportunities across the world, the focus of this analysis will be on distributors. Hence, the goal is to create a framework which Gallo Worldwide can leverage on to properly and effectively conduct its choices regarding knowledge transfer with distributors on diverse foreign markets **[Exhibit 6].** Building upon Frazier's contribution (Frazier, 2009), the present framework will be adapted to the olive oil industry, more specifically to Gallo. Hence, the distinction between make and meet demand will be employed, as well as some of the manufacturer and industry level dimensions presented by the author. Additionally, other relevant literature and insights gathered throughout the project will be used to generate valuable recommendations for Gallo.

Exhibit 6 | Relationship between Gallo and distributors: A knowledge transfer framework (Individual analysis).



The starting point of the framework has to do with the distributor role: make demand or meet demand**?** Olive oil consumption is highly concentrated in producing countries, especially where there is cultural attachment to the product (Olive Oil Market, 2016), and although it is nowadays used in many other regions, there is still quite often the need to encourage consumption. In such cases, it is essential that Gallo builds brand preference among the target market, which involves a higher and wider level of knowledge transfer between the company and its distributors. By

opposite, in situations where Gallo is merely responding to an already existing demand, the focus of the relationship with distributors will consist mostly of physical distribution, quality management and financial knowledge.

Furthermore, drawing on Frazier's (2009) work, there are manufacturer and industry characteristics which should be taken into consideration due to their significant impact when it comes to the amount and type of knowledge shared between firms. Among other aspects, manufacturer characteristics include *brand positioning, market position* and *product newness*. Firstly, Gallo's brand positioning will depend on the type of product being exported, meaning that premium olive oils will normally require more knowledge sharing with distributors when compared to lower-end products Gallo also sells. When it comes to Gallo's market position, it will also affect the distributor's willingness to integrate knowledge from the manufacturer. Thus, if a certain country already has established market leaders in the olive oil industry, with a strong brand positioning, it is less likely for distributors to have the incentive to support the launch of a new brand. Therefore, unless Gallo invests heavily in the relationship with the distributor, the tendency is towards less knowledge sharing in countries where the company is expected to gain an insignificant market share. As for product newness, the implications for Gallo will depend on the existence of olive oil in the target market, meaning that the less it is familiar with olive oil, the more there will be to share regarding knowledge with distributors.

Regarding industry characteristics, *product differentiation, distribution intensity, end-customer heterogeneity, end-customer expertise* and *industry financial performance* were considered. Product differentiation will vary depending on the country. For instance, in places where there is olive oil heritage, with differentiated product offering, it becomes crucial for Gallo to share more knowledge with distributors especially with regard to the uniqueness of the product so that these intermediaries perceive its distinctive characteristics and have an incentive to sell them. As for distribution intensity**,** it will depend on specific characteristics of the host country,

as well as the contractual agreement between firms. If distributors carry a number of competing brands, or if Gallo has more than one intermediary in that country, the tendency is towards less cooperation and trust between companies, consequently leading to less knowledge transfer. On the other hand, if there are exclusive distribution agreements, the incentive for knowledge transfer between Gallo and the distributor is enhanced.

Whenever there is end-customer heterogeneity, Gallo will have to analyze different tastes and preferences among consumers, meaning that there will be the need for knowledge sharing and increased marketing efforts among channel members. Conversely, if the target is overall homogeneous, the need for additional efforts in the previously mentioned fields is weakened. End-customer expertise depends on the degree of knowledge a particular market has on the product. As it happens with product newness, markets where there is already some tradition and familiarity with olive oil, don't need to be educated about the product and can make purchasing decisions by themselves, which means that in those cases Gallo won't need to transfer high amounts of knowledge with distributors.

Finally, the financial performance of the industry in a certain country will also play a huge role when it comes to knowledge transfer. If Gallo is entering a market where sales have been growing significantly, there is a high chance for distributors to be willing to invest in the products. On the other hand, if the industry is underperforming or barely growing, distributors will have little incentive to sell olive oil, and won't be available to integrate and share knowledge with Gallo.

So far it has been demonstrated that different distributor roles combined with the manufacturer and industry characteristics lead to different approaches when it comes to the degree and type of knowledge shared. In addition, the implications regarding explicit and tacit knowledge transfer will be analyzed. For instance, if Gallo wants to enter a country where there is undifferentiated offer, intense distribution, low product newness, homogeneous end-consumers

(who already possess a degree of expertise about olive oil), together with poor industry financial performance composed by companies with strong market positions, it is less likely for the company to engage in knowledge transfer processes with distributors. As such, the information shared with distributors will mostly involve explicit knowledge, especially in terms of the physical distribution of the products. Depending on the situation, the majority of knowledge shared will consist of ordering procedures, packaging guidelines, with little information regarding how products should be marketed (Frazier, 2009). Nevertheless, because Gallo values its reputation for quality, it is also recommended that the company shares information regarding their quality management standards, as well as fundamental financial data (such as credit terms) which should be shared with distributors.

On the contrary, if products are differentiated, distribution is weak (and there are exclusive agreements between channel members), product newness is high, end-consumers are heterogeneous and possess a lower degree of expertise on the product, together with an attractive industry financial performance and less saturated marketplace, the degree of knowledge transfer with distributors is enhanced. In make demand situations, it is imperative to establish close and frequent interactions with distributors, due to the 'tacitness' of the knowledge that needs to be shared. Tacit knowledge transfer is strongly related to a firm's competitive advantage, so the relationship Gallo has with distributors must lie in mutual trust, commitment and high-quality frequent communications (Cavusgil *et al.*, 2003).

Hence, one can assume that the higher the need to make demand, and consequently to transfer knowledge with distributors, the higher the amount of tacit knowledge to be shared between firms.

Even though the degree of openness with distributors in make demand contexts will most likely tend to differ, there are knowledge categories that will generally be shared under these circumstances. For instance, concerning marketing knowledge, Gallo must ensure that the

desired brand image, as well as the inherent benefits and unique characteristics of their products are entirely understood by the distributor so that they implement the appropriate marketing and selling strategies. It is also crucial for both companies to understand who is the target consumer and how they behave, which is something that depending on the distributor can be brought from their past experiences. Additionally, it is essential to share knowledge regarding personal selling and customer service, which can come both from Gallo's past internationalization, and the distributor's experience with similar products and target market. Regarding strategic planning knowledge, it is important to line up both firms' interests, goals and expectations, so that there is transparency in the relationship and a desirable strategic and cultural fit.

Another important aspect is related to the fact that having exclusive agreements with distributors will enhance the chances of developing strong relationships (Iglesias & Vázquez, 2001). As such, exclusive agreements are the recommended contractual agreement for make demand markets. In meet demand markets, one can say that due to the high distribution intensity, chances are that Gallo will not easily be able to have exclusive contracts with distributors, being forced to opt between other contractual agreements. However, regardless of the situation, it is important to state that whenever there is inadequate market coverage to reach the target consumer, selecting several distribution partners should be considered, rather than an exclusive one (Cavusgil, *et al.*, 1995).

5.3.3 | Framework application: Gallo in Austria

As previously mentioned, the first step in applying the framework is to understand what is the distributor role in Austria. By combining the information gathered in the Country and Market Audit, with the previous framework description, one can assume that Austria is a make demand market. To support this choice, each make manufacturer and industry dimension will be explained.

Even though in the Industry Attractiveness chapter it was considered that the olive oil industry in Austria still has low product differentiation, noticeable efforts to increase the product's sophistication are being observed. According to Burnham (as cited in Frazier, 2009), 'product differentiation is the extent to which end-customers perceive significant variation to exist in product qualities across supplier brands'. Thus, given Austrian millennials' characteristics (which are described in detail on the Marketing Plan) one can say that there is product differentiation because the target perceives organic products as being differentiated from regular ones in terms of quality and health benefits.

Furthermore, Gallo's brand positioning in Austria, as well as the desired market position is towards a higher-end of the product continuum, targeting end-customers that are willing to pay more for higher quality and health benefits. Additionally, the lower availability of organic olive oil when compared to extra virgin olive oil (5 brands and 30 brands respectively), indicates that there is a higher degree of product newness in this category. When it comes to distribution intensity, after analyzing the ten main olive oil brands in Austria it became evident that these sell through a single intermediary, and that apart from Hweihs and Imgro, distributors only sell olive oil from a single manufacturer **[Exhibit 7]**. Concerning end-consumer, it is not clear whether there is a significant degree of heterogeneity, due to the fact that no specific information regarding Austrian's tastes and preferences was found. Moreover, as there is less familiarity and cultural attachment towards olive oil, together with a low consumption (9.6 thousand tons in 2016) compared to the EU average (55.8 thousand tons in 2016), one can say that there is a low degree of end-consumer expertise (International Olive Oil Council, 2016). Regarding industry financial performance, one can say that it is attractive due to the fact that there has been sustained growth in the industry's retail value, as well as an increase in consumption over the last few years (Euromonitor, 2017).

Having analyzed the distributor role, as well as the manufacturer and industry characteristics in Austria, some actionable recommendations for Gallo will be provided. As it was already mentioned, Austrian companies rely heavily on relationships and appreciate having close contact with business partners. Therefore, some recommendations for Gallo, in this case, would be to organize routine visits with the distributor's representatives to Gallo's facilities, and vice versa. Additionally, Gallo should maintain a regular basis of interaction with the distributor through meetings and other communication channels. It might also be valuable to perform training sessions, technical courses and sales promotion campaigns to ensure that the distributor's sales team is well trained and prepared to sell the products (Redaelli *et al.*, 2015). The priority for Gallo and the distributor should be to meet end-customers' expectations, which for the chosen target and product tend to be high. Therefore, it is crucial that the brand-image, product features and benefits are fully understood by the distributor so that they correctly integrate this knowledge when selling Gallo's products to retailers. In this case, because Gallo is developing an organic product exclusively to Austrian consumers, it should take advantage of having a local partner to better understand how to fit Austrian consumers' tastes and preferences.

Exhibit 7 | Olive oil companies and intermediaries in Austria (Websites of Glatz, Vfi, Hweihs, Imgro, Edhaas and Haugen Gruppen, 2017).

Company	Brand	Intermediary
Bright Food Ltd.	Filippo Berio	Glatz
Dante	Dante	Vfi
Deoleo SA	Bertolli, Carapelli and Sasso	Hweihs
Deoleo SA	Carbonell	Imgro
Delice Italiana SpA	Conte de Cesare	Edhaas
Iliada	Iliada	Hweihs
Korinth	Korinth	Imgro
Monini SpA	Monini	Haugen Gruppen

All in all, this leads to the conclusion that the relationship between Gallo and the distributor in Austria will require a high degree of knowledge transfer, especially when it comes to tacit

knowledge. It is also recommended that Gallo establishes an exclusive agreement so that the distributor's commitment and confidentiality are ensured.

5.3.4 | Limitations

Although it was made an effort to develop a viable framework that could be used by Gallo some limitations must be addressed. First, the framework is limited to the analysis of knowledge transfer between Gallo and distributors, leaving aside other exporting intermediaries such as agents, third-party logistics and retailers. Therefore, further literature research would be required so that it could be applied to a broader number of intermediaries. A second limitation has to do with the fact that there is lack of information specific to the olive oil industry in certain countries, as well as in terms of the relationship between olive oil manufacturers and distributors, which might compromise the reliability of some of the assumptions made. Third, classifying distributor roles in make or meet demand is also a limitation due to the fact that in some situations this distinction might not be clear or even applicable. Finally, the fact that the framework doesn't encompass the distributor selection process is also considered to be a limitation.

5.4 | Mode change stimuli: What Gallo should track, *by Martim Maldonado*

As part of any internationalization process, companies must choose what they believe to be the most appropriate entry strategy to succeed in a foreign market. However, in today's dynamic world they cannot assume that the chosen entry mode will not always be the right way of operating there forever. Hence, this chapter aims at pointing out which could be the most likely *stimuli* that could trigger Gallo to increase, or decrease, the chosen entry mode.

When looking at this chapter, one can divide it into five major parts: the Literature review, the Influence of each trigger, the Evaluation of the *stimuli*, Results & Discussion Gallo's future and the Conclusion & Limitations.

5.4.1 | Literature review

5.4.1.1 | Changing entry mode

Following what was previously said, even though Rosson & Ford (1982) argued that the chosen entry mode may persist, it is also known that the same entry strategy can also be replaced by a completely different one (Petersen *et al.*, 2006). Often, this change comes down to a decision of increasing or decreasing market commitment, and in this sense, Jones & Coviello (2005), found that this was of utmost importance, particularly for smaller firms, due to the challenge that internationalization poses to them.

5.4.1.2 | Drivers to change

According to Petersen *et al.* (2006), scholars have intensively focused on the entry mode choices but to a lesser extent on what happens next and how and why firms change their operation modes abroad. In this sense, Calof & Beamish (1995) and Swoboda *et al.* (2011) dedicated a full study into understanding why would the decision-makers change the operation mode, using questionnaires and in-depth interviews too. The latter's results, are the most relevant for this study, due to the mainly German sample (similar to Austria), and that is why, for most of the times, one will attribute more relevance to it.

As a result of the research, Calof & Beamish (1995) divided the obtained answers into four main areas of triggers for increasing or decreasing the operation mode (something that would also suit as basis for Swoboda *et al.* (2011)): **performance, internal environment, external environment** and **managerial attitudes.**

5.4.1.3 | Performance

In what concerns performance, it seems somehow intuitive that the performance of a given operation mode might influence changes. In fact, most scholars also argue that performance plays a significant role in the decision of divesting (Hamilton & Chow, 1993), with some even saying that it is the major driver to it (Benito & Welch, 1997; Boddewyn, 1979). Accordingly, Calof & Beamish (1995) found that this impact is much more important in the context of mode

reductions rather than increases. However, this result was smoothed by Swoboda *et al.* (2011), who found that even though performance is more likely to reduce the operation mode, the relative importance of performance as a trigger to mode increases compared with the role it has as a trigger to mode reductions is not that big as it was previously mention.

5.4.1.4 | Internal environment

Concerning the internal environment, several papers support the existence of a correlation between a better internal environment and a mode increase (Boddewyn, 1983; Gomes-Casseres, 1987; Rosson & Ford, 1982). In fact, Boddewyn (1983) stated that if the deciders identified an improvement in the internal resources, such as the gain of specific know-how and capabilities to create competitive advantages, the likelihood of a mode increase would be amplified.

Nevertheless, Swoboda *et al.* (2011) as well as Boddewyn (1979) and Calof & Beamish (1995) argued that, even though internal resources are relatively more important to mode increases, its importance in mode decreases should not be disregarded. Accordingly, in the former's results, internal environment appeared as the main reason for mode increases and the third most relevant for mode reductions.

5.4.1.5 | External environment

According to Boddewyn (1985) environmental factors describe both conditions and motivators for investing or divesting in a market. Intuitively, one can argue that a more favorable external environment would easily be associated with an increase in commitment. In the same way, a less favorable environment would be associated with a decrease in commitment. However, even though Calof & Beamish (1995) supported that environmental changes are more often mentioned as drivers to mode increases, research shows otherwise. In fact, not only were the Swoboda *et al.* (2011)'s results contradictory (as they showed that external environment was more triggering for mode reductions than it was for mode increases), but also several other studies, such as Benito & Welch (1997) and Belderbos & Zou (2009), found a correlation between external environment and divestment. However, this must be taken carefully, as

Belderbos & Zou (2009) also claimed that if the change in environment represents growth to the company, the probability of divestment seriously decreases, regardless of how adverse this environment change is.

5.4.1.6 | Managerial attitudes

In what regards managerial attitudes, even though changes in management (and consequently in managerial attitudes) can be conceptually associated with mode reductions (Benito & Welch, 1997), most scholars have proved that managerial attitudes can much easily trigger mode increases than mode reductions (Calof & Beamish, 1995; Fletcher, 2001). Accordingly, the results from Swoboda *et al.* (2011) not only point out to the high influence that managerial attitudes have on increasing the operations mode (it is the second most important trigger, following internal environment), but also to the diminished importance of this same trigger in mode decreases (as it is the fourth out of four dimensions).

5.4.2 | The influence of each trigger

Following the mentioned literature review, one can now assume that, generally speaking, the most important triggers are the ones depicted in **Exhibit 8**.

Exhibit 8 | Triggers of entry mode change (Individual analysis).

Mode Changes	1st	2nd	3rd	4th
Mode increase	Internal Environment	Managerial Attitude	Performance	External Environment
Mode decrease	Performance	External Environment	Internal Environment	Managerial Attitude

Regarding these, one must bear in mind that the different *stimuli* belonging to each trigger vary both in importance and intensity for mode increases or reductions (Fletcher, 2001). Hence, it becomes essential to analyze which of the *stimuli* are actually relevant for Gallo, and how can they trigger the company's mode change.

5.4.3 | Evaluation of the stimuli

This way, **Exhibit 9** shows all of the *stimuli* used in Swoboda *et al.* (2011) to characterize the four different categories of triggers, that one must analyze.

Exhibit 9 | Stimuli of entry mode change (Swoboda *et al.*, 2011).

Performance	Internal Environment		External Environment	Managerial Attitudes
	Strategic	Resources		
P1: Continuous bad/good performance	**S1**: Diversify products/markets	**R1**: It was more efficient to serve the market in a new way	**E1**: The contractual situation has changed	**A1**: The company felt more comfortable operating in the country and felt the need to change
P2: Mode change was the next logical step	**S2**: Realize growth objectives/ Reduce costs of operations	**R2**: Different management idea about the important of international business	**E2**: There was the opportunity to buy or sell a company **E3:** There were new norms in the industry/country	**A2:** The company changes because it has a higher commitment with the market (higher knowledge → Higher commitment)
P3: Overall maladjustment of the entry mode strategy with the overall operations	**S3**: Make the foreign market strategically less/more important	**R3:** Decision to integrate more or less resources due to past experiences	**E4:** Unexpected development of demand	

Performance

Starting with the performance related *stimuli*, one can say that, even though there is not a clear *stimulus* that is more important to keep track of, there is one that is less significant. In fact, **P3** is not considered to be relevant for Gallo's decision of mode changes, due to the company's experience in dealing with international operations of many kinds. Thus, **P1** and **P2** remain the performance *stimuli* capable of triggering a mode change. However, as it will be further seen, performance is only likely to trigger mode decreases, while in mode increases it will work more as a "check variable", given that in order to increase the mode of operations one should have a good performance.

Internal environment

As seen in the table above, one can divide the internal environment trigger into strategic and resource related *stimuli*. Once again, in the first category, it is possible to select a *stimulus* that is not expected to trigger a mode change in Gallo's operations: the willingness to diversify or reduce products/markets. This is considered to be irrelevant for the company due to the fact that

it would more likely result in entering or exiting a market, rather than in a mode increase or decrease.

In what regards the resource related *stimuli*, **R1** is the only *stimulus* that is considered to be important enough to trigger Gallo to change its operating mode. **R2** is not worth to keep track of, due to the extensive level of deepness that internationalization has in the company's way of operating. Furthermore, even though learnings from past business activities **(R3)** are expected to influence the way Gallo runs its operations, they are not expected to trigger any specific mode change, as this type of decision is extremely dependent on the specific context in which it is taken.

External environment

Regarding the external environment, one can highlight a *stimulus* that clearly has more influence than the remaining, due to the direct impact it can have on sales: the evolution of demand being more/less than what was expected (**E4)**. However, one must also not disregard the importance the remaining *stimuli*, as they can be extremely important to a company in the food sector, operating under such low margins, like Gallo does. Changes in both legislations and in the contract with partners (**E1**), can lead to a mode change, as they might jeopardize or increase the economic viability of the operations. Moreover, **E2** might also trigger a change in the sense that it unveils a new opportunity for the company.

Managerial attitudes

When considering Gallo's situation, it becomes clear that, as literature suggested, none of the *stimuli* in managerial attitudes would be powerful enough to trigger a mode decrease. Therefore, regarding mode increases, the only managerial attitudes' trigger worth to keep track is **A2**, as feeling more comfortable operating under one entry mode (**A1**), would much more likely create higher commitment to the current operating mode, rather than trigger a change.

5.4.4 | Results & discussion: Gallo's future

Bearing these relevant *stimuli* in mind, one must now identify which are the most significant to consider in the different stages of evolution for Gallo's business in Austria.

Exhibit 10 depicts three different types of mode increases and the respective *stimuli* that can lead Gallo to shift. As mentioned, it is assumed that currently, the best entry mode is the direct exporting, and so one must start there. Hence, the first increase to consider would be to change the activities into an intermediate commitment mode, represented in this case by a licensing deal. At this stage, in order to increase the mode of operations, one should start by highlighting the importance of the internal environment trigger. Here, in accordance with what was previously seen, the most important *stimuli* is **S2**. This relates to the fact that this change allows Gallo to have full control and dictate, at any time, which strategy is better for it to pursue its growth objectives. Furthermore, the *stimuli* **A2** from managerial attitudes can also lead to a mode increase. This could happen due to Gallo's increasing knowledge of the market (resulting from working with the distributor), that could result into a willingness to control all of the operations, leaving only the implementation to a partner. Moreover, the external environment could also trigger this shift through a change in the contractual situation (**E1**), because in such a low margin industry, a change with the current partner could lead the company to look for other options with a higher commitment.

Exhibit 10 | Triggers for Gallo's entry mode change (Individual analysis).

Direct exports → Licensing	Licensing → JV	JV → Sales Subsidiary
Need to increase to realize growth objectives	Need to increase to realize growth objectives	Need to increase to realize growth objectives
Higher knowledge → Higher commitment	Higher knowledge → Higher commitment	Higher knowledge → Higher commitment
Change in the contractual situation	Change in the contractual situation	Market is set to become strategically more important
Market is set to become strategically more important	Market is set to become strategically more important	Opportunity to buy the share of the other partner
	Opportunity to buy/create a company	Increase in the forecasted demand
	Increase in the forecasted demand	It is more efficient to serve the market in a different way

Sales Subsidiary → JV	JV → Licensing	Licensing → Direct exports
Continuous bad performance Reduce cost / Increase efficiency of operations Negative development of forecasted demand	Continuous bad performance Reduce cost / Increase efficiency of operations Negative development of forecasted demand Opportunity to sell its share of the JV	Continuous bad performance Reduce cost/ Increase efficiency of operations Change in the contractual situation

When considering Gallo's possible path in Austria, the following stage would be an evolution from the intermediate commitment mode (once more, represented by a licensing deal) to a Joint Venture. In this case, besides the previously seen **A2** and **S2** *stimuli*, the forecasted strategic importance of this market should also be considered as a trigger (**S3**). In fact, if the company expects the market to become more strategically important, an increase into a higher commitment strategy reflects exactly that strategy, as it gives more flexibility and control to operate in the market. Moreover, the **E1,** the **E2** (adapted) and **E4** *stimuli* could all trigger the implementation of a Joint Venture. Regarding the **E1** *stimulus*, the reasons for its impact are the same as before. On the **E2,** if there was the opportunity to create a Joint Venture with a partner, it could trigger the company to shift its operation mode. Finally, the **E4** *stimulus* could also be considered a trigger, in this particular situation, if the company aims to take advantage of this increase in forecasted demand through a partnership with an existing player, enjoying the leverage effects of both brands.

Following the Joint Venture, the next mode increase would be a Sales subsidiary. More than in any of the previously analyzed mode increases, the **A2** *stimulus* would be of utmost importance. This could happen if the company feels that the commitment and knowledge it develops are finally enough to approach the market on its own. Moreover, regarding the internal environment, one can say that, once again, the **S2** and **S3** *stimuli* can work as influential triggers to mode changes, as well as **R1**. Regarding the first, it could arise from the freedom of decision, as well as from the increase in margins, (given that in the Joint Venture scenario Gallo would need to share the revenues with its partner). The **R1** *stimulus*, on the other hand, is considered

to be a powerful trigger due to Austria's central position, which could be of the most importance to reduce the transportation costs to the local and surrounding markets.

Besides these, the **E2** and **E4** *stimuli* can also lead to a mode increase. While **E4** arises from the same reasons as before, **E2** is related to the opportunity to buy the partner's share of the Joint Venture, creating a fully own sales subsidiary as consequence.

As important as the study of the specific *stimuli* and triggers affecting mode increase, one must also apply the same rationale to mode decrease **(Exhibit 10).** Hence, in order to trigger a mode decrease from a Sales subsidiary to a Joint Venture, several *stimuli* must also be analyzed. If Gallo was not able to deal with the Austrian market, and consequently failed to reach the forecasted performance (**P1)**, it could lead the company to reduce its operations and search for an opportunity to create a Joint Venture. Moreover, other *stimuli* such as **R1**, **S2,** or **E4** could also trigger Gallo into a mode decrease. While the first two would be related with the efficiency and lower costs that could arise from operating with a local partner, the last one could be due to the lower attractiveness of the market, which creates the need to rethink the resource commitment to serve it.

Secondly, the decrease from Joint Venture to licensing can be triggered by a continuous bad performance of the partnership, which could dictate its termination and the subsequent mode decrease (**P1**). Furthermore, for the same reasons as before, the **R1** and **E4** *stimuli* could also trigger a mode decrease. Nevertheless, if the company can sell its share of the partnership, the *stimulus* **E2** might also trigger a mode decrease. However, this would only work, as long as Gallo could still operate in the market after the sale.

Finally, the decision of moving from a licensing deal to exporting through a distributor would once again be related to the performance of the previous mode (**P1**). Besides, Gallo could fail on adapting to have more control over the operations, which would lead it to opt on giving more power to the partner, making the mode decrease the best thing to do in order to re-boost sales

(**S2**). Moreover, the **R1** and **E1** *stimuli* could also trigger a mode decrease. The first, due to the higher efficiency that could arise from giving more power to the partner and the second from the opportunity to sign a better contract with a distributor, that could lead to higher performance.

5.4.5 | Results and limitations

Following the previous discussion, one can conclude that this framework can help Gallo to know which stimuli to track. By looking into the **Exhibit 10**, the company can understand its path, and what rationale it should take when considering changing operation mode. However, even though this framework was performed by relating Gallo's environment to the existing literature, several limitations arouse.

The fact that it only considers one-step evolutions is a major limitation, as it is common that the mode changes occur in more than one step at the time. For instance, companies shifting from direct exporting, do not always go to licensing deals, but rather to sales subsidiaries. Furthermore, the fact that this map does not look at changes along a given operation mode is also a limitation. For example, one can have a minority or majority owned Joint Venture, and in both cases evolve to the other. Moreover, this whole study was designed based on Gallo's current situation, as well as Austria's current and forecasted environment, which means that if there is an unexpected shift, this map would not apply anymore. The last limitation is related to the concept of the map itself. The fact that it only looks to *stimuli* is good because it allows the company to understand each *stimulus* it should be aware of. However, it completely disregards the cost-benefit analysis that one must always perform in order to understand if, regardless of the *stimuli*, the shift would really work. For instance, while it is relatively cheap to change from direct exporting to a licensing deal, it is quite hard to change from a Sales Subsidiary to a Joint Venture, due to the costs associated with that.

This way, the next steps of this study would be to try to evolve the analysis to more than one-step evolutions and to changes within an entry mode. Moreover, it would also be of extreme

relevance to understand how *stimuli* relate to each other, in order to be able to establish specific KPIs that the company could easily track. The ideal situation would be one where we would be able to say, for example, "If the company fails to meet the target performance by x%, then it should reduce its operation mode". Finally, this study should be complemented by previously mentioned cost-benefit analysis.

6 | Marketing plan

6.1 | Marketing strategy: Segmentation, targeting and positioning, *by Patrícia Monteiro*

The central idea of marketing strategy is to match customers' needs and wants with companies' competences (Birjandi *et al.*, 2013). Yet, this exercise is impossible to achieve for all demand, since consumers are too demanding, numerous and varied in their needs and wants (Kotler, 2002), and firms have limited skills and resources (Birjandi *et al.*, 2013). Hence, organizations have to divide the market into segments and choose the ones they can outperform competitors (McDonald & Dunbar, 2004). To achieve it, companies need to understand consumer behavior and think strategically, following the STP principle: Segmentation, Targeting and Positioning. Having that in mind, the purpose of this study is twofold. Firstly, it aims to identify a profile of consumers who are likely to consume Gallo's olive oil in Austria. Secondly, it aims to elaborate a positioning strategy that arises from the analysis of Austria's olive oil market and an improved understanding of the profile of this segment of consumers.

6.1.1 | Literature review

This literature review is divided into two sub-chapters. The first aims to briefly describe the concepts of STP. The second seeks to understand which factors may affect consumers' choice of olive oil. To do so, segmentation in the Fast-Moving Consumer Goods (FMCG) industry is going to be reviewed and, when possible, examples for the olive oil industry will be provided.

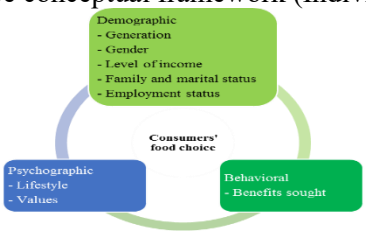
6.1.1.1 | Segmentation, targeting and positioning

Segmentation is the process of dividing a market into well-defined slices, market segments, who share a similar set of needs and wants (Kotler & Keller, 2012). According to the authors (2012), in order to be effective, segments need to be measurable, substantial, accessible, differentiable and actionable. In the FMCG industry, the division of consumer markets is most commonly done through geographic, demographic, psychographic and behavioral variables (Singh & Chandhok., 2010). Once the market is divided into smaller homogeneous groups, targeting is the process of choosing how many and which markets to focus on (Gupta, 2014). Finally, positioning is a differentiation strategy (Keller & Lehmann, 2006) that aims to create a brand, product or service identity in the target's mind (Barton, 2015), by having a point of difference (POD) perceived by the target which is relevant and believable (Reis & Trout, 2001).

6.1.1.2 | Factors that may affect consumers' choice of olive oil in Austria

Several factors that may affect consumers' choice of olive oil in Austria have been identified. These fit into three main categories: demographic, psychographic and behavioral **[Exhibit 11]**. A review of the literature supporting the relationships depicted in **Exhibit 11** follows.

Exhibit 11 | Consumers' food choice conceptual framework (Individual analysis).



In the FMCG industry, consumer markets are most commonly segmented demographically (James *et al.*, 2011), as it places consumers on easily understood, measurable scales (Beane & Ennis, 1997) and gives a wide coverage of the area under analysis (Singh & Chandhok., 2010). It includes several variables, being the most relevant to FMCG companies the age, gender, level of income, family, marital and employment status, and geographical location (Birjandi *et al.*, 2013; Mtimet *et al.*, 2008; Segal & Giacobbe, 1994; Verbeke *et al.*, 2006). In fact, these were

found to influence food choice (Michels, 2006), playing a role in forming choices, motivators and barriers to consume foods (Blades, 2001; Mitsostergios & Skiadis, 1994; Traill, 1999).

Yet, two special cases arise. Geographic variables are used to group people with similar socio-economic, cultural and lifestyle characteristics, as they tend to congregate in the same place (Singh & Chandhok., 2010). They are mostly used across regions and between countries, only being used within countries when these have vast areas and/or high cultural diversity. Since this is not the case for Austria, the variable falls short to explain consumers' choice in the country. Likewise, age doesn't explain food choices (James *et al.*, 2011) and generation cohorts should be considered instead (Michaels, 2006), as they combine age with major cultural, political and economical experiences and members share similar outlooks and values (Kotler & Keller, 2012).

Despite demographics' usefulness, psychographic and behavioral variables need to work along-side demographics to provide a more consumer-centric segmentation (Kaze & Skapars, 2011). Psychographic variables, as lifestyles, values, interests and social behavior, are linked to consumers' choices and behavior, being lifestyle the most common in the FMCG industry. Their wide use relies on the highly competitive FMCG's environment, which pressures companies to develop core competencies, such as in-depth understanding of motivators driving purchasing behavior, provided by psychographic variables (Kaze & Skapars, 2011).

Behavioral variables have an advantage over other types of bases to segmentation, being more responsive and actionable (Wedel, 1990). In the FMCG industry, the benefits sought by potential customers are regular segmentation bases (Birjandi *et al.*, 2013). It is useful to FMCG firms as products sold in this industry may be used for various purposes and occasions, and consumers may demand a varied range of features from the same product (James *et al.*, 2011).

6.1.2 | Methodology

In order to reach a conclusion on the most suitable profile of consumers, secondary data was used. Given the wide variety of secondary data available, criteria were defined to guarantee the

study's accuracy: to assure updated data, it should not be older than 2015; and to secure the information's representativeness of the reality, the source must be reliable. As a result, two main sources were considered: Euromonitor International and Nielson. This analysis was conducted assuming that, since markets are globalized and cross-countries segments emerged (Agarwal *et al.*, 2010), global studies could be used as a proxy to analyze the Austrian market. To conduct the positioning strategy, the previous analysis and primary data were considered. The latter was crucial to provide an overview of the existing players and their offers, and a better understanding of the dimensions Gallo should compete in. It covers existing players in the market, the products available and the respective prices practiced. The data was gathered from five different online retailing chains (Spar, Billa, LIDL, Merkur and M-Preis) during September, representing 52.7 percent of the total retail market (Euromonitor International, 2017c). Other retailers were not considered in this sample since they don't have online grocery shops. Yet, apart from Hoffer, all the major retailers are represented. The sample is composed of 37 olive oil brands and a total of 84 different offerings, within the price range of €4.66 to €31.99 per liter, averaging €12.58. Two major assumptions were taken to perform this analysis. Firstly, it was considered that the products available and prices collected remained constant during the period of this analysis. Secondly, it was considered that the data present in retailers' online shop is representative of the reality in the respective brick-and-mortar stores.

6.1.3 | Market segmentation

In order to segment the Austrian market, the framework determined in the literature review will be used, being its variables indexed to the generation variable. Also, descriptive characteristics (demographic and psychographic) will be analyzed first, after which consumers' needs (behavioral variables) will be overlapped with the segments found (Kotler & Keller, 2012).

Starting with demographic variables, the main generation cohorts, the age range they cover and their representation of the total population are depicted in **[Exhibit 12]**.

Exhibit 12 | Generational cohorts: Gender distribution and Size (Kotler & Keller, 2012; Euromonitor International, 2016a).

	Age Gap	% of Males	% of Females	% of Total Pop.
Millennials	(1979-1994)	13.2	12.7	25.9
Gen X	(1965-1978)	7.3	7.6	14.9
Baby Boomers	(1946-1964)	12.9	13	25.9
Silent Generation	(1925-1945)	5.8	8.1	13.9

According to Michels (2006), the most relevant generations for segmenting an olive oil market are Millennials, Gen X and Baby Boomers, since these are the main grocery buyers. However, in the case of Austria, the Silent Generation enjoys high pensions and is still an active consumer. As such, they will also be considered in this analysis. A description of each generation follows.

Millennials are independent and fairly immune to marketing, disliking over branding and "hard selling" techniques (Kotler & Keller, 2012). They are technological savvy and environmentally, ethically and socially concerned. As a matter of fact, they typically check product's packaging label to understand its impact, are interested in knowing where products were sourced and produced, and value organic claims more than any generation (Nielson, 2017a). Regarding member's food habits, they are selective in their choices and are not influenced by relatives' habits (Wilkins, 2004), indicating that this group can disrupt the tradition towards non-consumption of olive oil. Additionally, Millennials like different flavors and food types over bland and boring food, being very willing to try new cuisines and flavors (Michels, 2006).

Gen X sees technology not as a barrier but as an enabler, values self-sufficiency, pragmatism and individualism. As consumers, direct appeals where value is clear are appreciated (Kotler & Keller, 2012). Their food habits rely on eating comfort food, with familiar flavors. When eating out, they are the biggest spenders, yet make conservative choices (Gordon Food Service, 2015).

Baby Boomers are eager consumers of products targeted to younger ages (Euromonitor, 2017a) and are active consumers, being at the peak of their consumption (Kotler & Keller, 2012). Members prefer fresh and local food products and enjoy cooking (Food Business News, 2016).

The **Silent Generation** increases demand for a wide variety of goods such as food and drinks, health and medical products and services. Their food diet relies on traditional dishes with high levels of fat, sugar and salt (Euromonitor International, 2017a).

Even though **gender** was found to have an impact on food choice, in Austria, the gender distribution in each generation is roughly the same **[Exhibit 12]**.

Besides higher **income levels** (linked to the **employment status**), being associated with higher purchasing power, several studies show that higher incomes are related to the increased purchase of recommended foods (Billson *et al.*, 1999; Kirkpatrick & Tarasuk, 2003; Trichopoulou *et al.*, 2002). Likewise, claims of organic get more important as income increases (Nielson, 2017a). Given these relations and as olive oil is the recommended edible oil, Gallo would benefit from consumers with higher incomes **[Exhibit 13]**. With the analysis of **Exhibit 13** one notices that younger Millennials, who are starting their careers, have a lower average gross income than older Millennials, who have already kick-started their careers. Also, Gen X and Baby Boomers have a steady job, thus earn more, while Silent Gen is mostly retired, but enjoys a high pension (Euromonitor International, 2017a). Overall, Millennials have the lowest average gross income.

Exhibit 13 | Generations' average gross income (Euromonitor International, 2017a).

	Younger Millennials	**Older Millennials** (above 30 years old)	**Younger Gen X**	**Older Gen X** (above 44 years old)	**Baby Boomers**	**Silent Gen**
Average gross income	€33,592	€40,821	€44,980	€47,478	€45,356	€41,781

Likewise, **marital status and children** are linked to increased consumption of healthy foods (Billson *et al.*, 1999; Martikainen *et al.*, 2003). Thus, consumers with these features are more likely to consume olive oil. Besides from younger Millennials who are still starting a family, the remaining average member has family and children (Euromonitor International, 2017a).

Regarding **lifestyle**, Millennials are health conscious and active in sports (Euromonitor International, 2017a). They enjoy eating out, engaging in this activity at least once per week (Nielson, 2015a). Contrarily, Gen X is best known for being hard workers, with little free time

and great focus on their careers, family and home. Baby Boomers, eat out less frequently than Millennials, despite having cash to burn. Instead, they engage in activities that are expensive to other generations, such as traveling. Eager to catch up with Millennials, they spend time on social media. The Silent Generation has a lot of free time, since they stop working at an early age. As being healthy starts to be a concern, members tend to exercise and to practice sports (Euromonitor International, 2017a).

To complete the analysis, one will examine product responses from each segment, by comparing the **benefits sought** by each one. Overall, consumers seek mostly affordable, quality, premium, healthy and innovative products. Even so, generations value benefits differently **[Exhibit 14]**. Gallo's olive oil is not a low-cost product. Thus, Gallo will serve more effectively consumers that don't base their choices on the lowest prices, like Baby Boomers and Silent Gen. Contrarily, Millennials consider low cost as a less determinant factor. The quality benefit fits with Gallo product and culture. Both Baby Boomers and Silent Generation actively look for products that convey high-quality and for that they tend to buy brand-name recognized and familiar products. Although premium products are not Gallo's core business, they have award winning premium olive oils, which they could market in the Austrian context. These products are mostly sought by Millennials, who have an above average demand for them. Gallo is used to market a healthy product. In this regards, Millennials not only look for healthy options the most but are also more willing to pay for them. Finally, Gallo has new product development capabilities and is able to effectively serve consumers who seek this characteristic. Millennials are the most willing to buy new products, whilst Silent Gen is the least willing.

Exhibit 14 | Benefits valued by generation (Nielsen, 2015b; Nielsen, 2015c).

	Millennials	Gen X	Baby Boomers	Silent Gen
Low-Cost Prices	40%	42%	50%	50%
Quality Products	21%	20%	24%	27%
Premium Options	21%	n.a	n.a	n.a
Healthy Options	33%	32%	32%	24%
Willingness to pay premium for healthy products	29%	26%	23%	15%
New Products	66%	53%	41%	25%

6.1.4 | Targeting

In order to select a target one should evaluate segments' attractiveness and their fit with the company's objectives and resources (Kotler & Keller, 2012). With that and the preceding analysis in mind, Gallo ought to follow a single-segment concentration strategy by focusing on serving a distinct mix of benefits of one niche segment: older Millennials.

Segments' attractiveness is evaluated by combining several criteria: effectiveness; size; growth rate; and potential revenues. After conducting this analysis **[Exhibit 15]**, one concludes that the most attractive segment is Millennials. Even though all segments are effective, Millennials are, together with Baby Boomers, the largest group in Austria and are expected to grow (Euromonitor International, 2016). Also, potential revenue was calculated considering the quantities sold (segment size and demand for healthy options) and price (average gross income, willingness to pay for healthy products and price concerns). Since Millennials seek healthy products the most and are the largest group, they ought to buy more quantities. As to price, despite having the lowest income, they are the least concerned about price and are willing to pay more for healthy products. Hence, Millennials would generate higher revenues.

Exhibit 15 | Segments' attractiveness (Individual analysis; Euromonitor International, 2016a).

	Millennials	Gen X	Baby Boomers	Silent Gen
Effectiveness	Yes	Yes	Yes	Yes
Size	25.9	14.9	25.9	13.9
Growth	0.24%	-0.22%	1.00%	2.00%
Potential Revenue				
Average Gross Income	Medium	High	High	High
Willingness to pay for Healthy Products	High	Medium	Medium	Low
Price concerns	Low	Medium	High	High
Size	High	Low	High	Low
Healthy options	High	High	High	Low

Concerning the second step of the analysis, Gallo's main objectives for the Austrian market are to increase revenues and gain traction in the European market, being Millennials able to meet those objectives for the reasons mentioned above. Moreover, Millennials are the best fit with Gallo's resources. Gallo's brand, promotes healthy and flavorful meals and stands for quality. Likewise, Millennials have an active, healthy lifestyle and look for quality, healthy and non-

bland food products. Moreover, they are the most willing to try new products and Gallo has strong capabilities to develop and market new products.

To conclude, one will confront the target choice with the conceptual framework created. Regarding gender, the group has nearly the same weight distribution as other cohorts, thus gender is not a differentiating factor between segments. As to Millennials' psychographic characteristics, their lifestyle is the best fit with the company since they are health conscious. Regarding benefits sought by Millennials, these are aligned with what the company offers (quality, above average price, healthy and flavorful products). Despite income levels being related to the consumption of recommended food and the segment presenting the lowest average income, Millennials' income is higher than the OECD average (Eurostat, 2016a) and, as they get older, their income and buying power tends to increase (Nielson, 2017). Yet, not all Millennials' marital, children and employment status embodies consumers likely to follow dietary guidelines. Thus, it is recommended that the company focus on a niche segment inside Millennials: older Millennials. These embrace all the features mentioned above, but are also married, have children, a steady job and higher average gross incomes. All factors that influence positively the choice of recommended food products, such as Gallo's product.

6.1.5 | Positioning

To have a competitive positioning and securing the market, marketers must identify the target market and the competitive advantage they will bring to the market (Hooley & Saunders, 1993), which must be designed to attract the target and built on the firm's distinctive resources and capabilities to be sustainable (Hooley & Broderick, 1998).

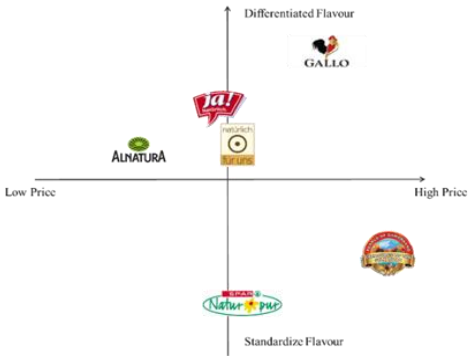
Having decided on the target market, according to Porter (1996), needs-based positioning can be used by companies to position offerings in the market. This concept, which will be used in the analysis, states that a firm should satisfy as many needs of the target market as possible. As stated previously, Millennials' needs are focused on healthy, quality products with organic

labels and new products. Thus, the first step in building Gallo's competitive advantage is to deliver an offer that meets those needs, by positioning Gallo's olive oil in the market as a quality brand that promotes healthiness. Furthermore, since Millennials value organic products and there are less organic olive oil offers than any other type of olive oil **[Exhibit 16]**, positioning as an organic brand would encounter target's needs while competing in a less competitive environment. However, a point of difference amongst the existing organic olive oil brands must be identified to create a unique positioning in consumers' minds. To do so, competitors' characteristics were analyzed [**Appendix 2]** and a positioning map was created **[Exhibit 17]**, where the existing organic olive oil brands were placed under a two dimensions graph, which evaluates: price; and flavor differentiation, this is, the degree of uniqueness or differentiation of the olive oil flavor. From the positioning map it is highlighted where Gallo will find its unique position in the market and holds its competitive advantage. It is able to practice an above average price (€12.27 per liter) since Millennials have higher willingness to pay for such products and don't look for "bargains". Also, it is able to differentiate itself from competitors by adapting its product to Austrians' tastes, creating a unique olive oil for the Austrian market, as little differentiation exists in the market in this regards (see **Appendix 2** for further detail).

Exhibit 16 | Number of brands in the market per type of olive oil (Websites of the retailer brands Billa, Merkur, Spar, Lidl and MPreis).

	Organic Olive Oil	Extra Virgin Olive Oil	Virgin Olive Oil	Regular Olive Oil
Labelled Brands	3	22	2	5
Private Labels	2	8	0	2
Total	5	30	2	7

Exhibit 17 | Positioning map (Individual analysis).



Finally, one needs to assess if the company's resources and capabilities can develop and market this offer. Firstly, Gallo holds new product development capabilities to create and take to the market a new product such as an organic olive oil. Also, to source it with a cost advantage, the company can leverage its wide supplier network. Finally, its mastery in selection, tasting and blending techniques can be used to make sure the product is flavorful and adapted to local tastes.

Once decided the place Gallo will occupy in consumers' mind, one has to establish a positioning statement to communicate the desired positioning of the brand to its target. This is composed of: target market (targeting analysis); frame of reference; Point of Parity (POP); Point of Difference (POD); and reasons to believe.

Starting with the frame of reference and POP (brand's category and required characteristics to compete in the market), Gallo operates in the olive oil industry where, regardless of the brand, olive oil is associated with a healthier cooking oil than other edible oils (Michels, 2006). Regarding the POD, Gallo will face stiff competition and needs to focus on its unique characteristic(s) to differentiate from competitors. As seen before, this ought to be a labeled organic olive oil with a unique flavor, specially tailored to Austrian's tastes.

The reasons to believe are related to Gallo's years of experience in the industry and its VRIO resources explained above. Combining everything, Gallo's positioning statement is as follows: *To Austrian Millennials who seek healthy options, Gallo's Organic Olive Oil is a healthy cooking oil that has a unique flavor adapted to Austrians' tastes and made from the best quality organic olive oil. This is possible due to Gallo's mastery in the sourcing, selection and blending techniques, aligned to a vast supplier network and strong abilities of new product development.*

6.1.6 | Concluding remarks

The preceding analysis endorsed a better understanding of the Austrian olive oil market, while allowing to reach a conclusion regarding the most suitable consumer profile and to define a strategy that allows Gallo to occupy a distinctive place in consumers' mind. It is recommended

that Gallo focus its marketing efforts on Millennials, particularly on older members of this group, which is the most attractive segment and the best fit with the company's resources. Also, the company should position itself as an organic olive oil adapted to Austrian's tastes, as by doing so the company is able to avoid the intense competition existing amongst olive oil players and, at the same time, differentiate itself by taking advantage of its resources.

6.2 | Marketing tactics

Once defined the Marketing strategy to adopt to successfully market Gallo's products in Austria, an analysis of the tactics to employ follows.

6.2.1 | Product

Following the proposed Marketing strategy, it is the group's recommendation that Gallo develops an organic olive oil offering to enter the Austrian market. This will serve to differentiate Gallo in a market where demand is still flourishing and competition for shelf space is intense.

It is worthwhile highlighting the need for adapting the olive oil blend to local tastes. As mentioned before, olive oil taste is one of the attributes that most influences consumer purchase (Giudice *et al.*, 2015), and tastes tend to vary from country to country. Gallo has the organizational resources to develop a new flavor profile tailored to Austrian consumers' tastes and it is recommended to do so. To do this, the company should study which attributes the Austrian consumer most appreciates and produce an olive oil that meets these specifications both in terms of taste and intensity.

Still, one must decide which type of olive oil to produce. International standards outlined by the International Olive Oil Council define four grades of olive oil fit for consumption: Extra Virgin olive oil, Virgin olive oil, Ordinary Virgin olive oil and Olive Oil (oil consisting of a blend of refined olive oil and virgin olive oils fit for consumption as they are) **[Appendix 3]**.

Of these, Gallo's current product offering includes Extra Virgin olive oil, Virgin olive oil and Olive Oil **[Appendix 1]**, as well as an assortment of premium Extra Virgin olive oils.

First, it is important to establish that Gallo should not enter the Austrian market with Olive Oil. Millennials were chosen as the target market for their drive to choose food products based on health attributes. Since Olive Oil is the least healthy type of olive oil – as it includes refined olive oil in its composition -, introducing it in the market would go against the target's preferences and would position the brand undesirably in the minds of consumers.

As such, the choice falls between Extra Virgin and Virgin olive oil. Around 80 percent of the available olive oil offerings in Austria are Extra Virgin. As Austrian consumers are not, for the most part, educated in what regards olive oil, the most available type of olive oil in the market is the one they are more used to consume. Moreover, despite differences between Extra Virgin and Virgin olive oil being immaterial in terms of health attributes, consumers tend to think of Extra Virgin olive oil as a healthier alternative. Thus, Gallo should produce and approach the Austrian market with an organic Extra Virgin olive oil.

Moreover, among Gallo's Extra Virgin olive oil offerings, its premium assortment should not be considered when entering the market because, although the target market is willing to pay premium prices, consumers still associate "premium" to products from well-known or trusted brands (Nielsen, 2016a). Since Gallo doesn't have brand awareness in Austria and there are worldwide recognized brands in the market selling premium products (e.g., Casa Rinaldi), getting consumers to buy Gallo's premium offering would be extremely arduous, especially considering the prevalent association among consumers that great olive oil is that from Italy and Greece.

In addition, it is recommended that Gallo enters the Austrian market with a single organic Extra Virgin olive oil offering. That is because negotiating shelf space is burdensome, and if it must be done for more than one product, it might be too resource-demanding at this early stage.

Moreover, even though Gallo's brand may not warrant by itself shelf space, an organic offering will encounter less competition given the limited number of similar offerings in Austria. Internally, the adaptation of more product offerings to local tastes would incur large costs in production, R&D and Marketing. Given the experimental character of the Austrian market, in this earlier stage of internationalization it may be preferable to start with this single organic olive oil, create brand awareness and test the market. In a later stage, if the market proves itself attractive, Gallo should also invest in adapting the blending of its Extra Virgin (non-organic) offerings to the Austrian consumer tastes and enlarge its product range in this market.

Regarding packaging, Gallo should market glass bottles of 75cl. Even though glass bottles encompass higher risk of product damage during transportation, plastic bottles convey an appearance of lower quality, contrary to the company's intended positioning. Moreover, the risk of damage in product handling may be safeguarded while choosing the transport method. Evidence of this is the fact that Gallo exports glass bottled olive oil for Poland, a foreign market which seems to present similar transport risk. Lastly, this is the standard packaging option in the Austrian market, which further supports the group's decision.

Finally, in order to capture the attention of the target consumer, the packaging label should highlight two major attributes: healthy and tasteful meals. Insights provided by the representative of Aicep Portugal Global in Austria revealed that there is a decent variety of olive oils in retail outlets and it is very hard to distinguish them. As such, Gallo should leverage this and create a unique labeling that stands out on the shelf. This can be another potential source of competitive advantage over other brands in the market.

6.2.2 | Price

Pricing is an important part of the marketing strategy, as it enables Gallo to capture the value created by the remaining elements of the marketing mix. When establishing its price, Gallo should bear in mind that its buyer will differ from the consumer of its products, which means

that intermediaries' margins must be considered for the product to reach the consumer at a competitive price.

In order to determine the price range of competing offers in Austria and define the recommended price for Gallo to practice, a benchmark analysis of the organic olive oil offerings (available online) in Austria was performed.

Taking into account the previously established marketing strategy, Gallo should price its organic olive oil offering between the average price for organic olive oils (€12.27 per liter) and the lowest price for premium olive oil available in the market (€16.98 per liter).

There are several the factors that enable Gallo to charge an above average price. Firstly, Millennials actively look and are willing to pay more for both healthy and organic products. Moreover, lower prices usually negatively impact consumers' perception of quality, and since Gallo wants its product to be perceived as high-quality, an above average price should be charged. Finally, unlike its direct competitors' - other organic olive oil offerings -, Gallo's product offering is to be differentiated – since its flavor profile will be adapted to the Austrian palate –, which pushes the price up as consumers' willingness to pay also increases.

Nevertheless, Gallo should price its offering below the cheapest olive oil premium offering. That is because Gallo's intended positioning in Austria is not one of a premium product for the reasons stated in the Product section of the report. Moreover, Gallo lacks brand awareness in Austria and Portuguese olive oils and their intricate characteristics are unknown to Austrian consumers. Instead, there is the general association of good olive oil with Italy and Greece, which decreases the customers' willingness to pay if Gallo was to charge premium prices.

Hence, Gallo should price its offering above the average for organic olive oil offerings, but still lower than premium offers. More specifically, it is recommended that Gallo opts for a price point of €14.63 per liter (an average of the proposed price range), which corresponds to a price

of €10.97 per bottle of 75cl. Deducted the value-added tax (VAT), the average price is €9.97 per bottle.

It should be highlighted that this amount will be distributed among the four main stakeholders involved in the transaction: the retailer, the distributor, the transportation company and Gallo. Assuming that retailers in Austria employ margins of approximately 30 percent, similar to those applied by Portuguese ones, and that local distributors usually have a profit margin of close to 15 percent (as disclosed by Gallo Worldwide's management), €6.67 remain to cover production and transport costs and generate profit for Gallo. As it will be further detailed in the Operations and Financials sections, the transportation cost per bottle would be approximately €0.22, meaning that a share of 59 percent of the final price to the consumer (€6,45, specifically) would be captured by Gallo. Deducted the estimated COGS of €4.78 per bottle, Gallo would have a profit margin of 15 percent, corresponding to a gross profit per bottle of €1.67.

6.2.3 | Place

There are several types of outlets through which Gallo can reach the final consumer in the target market. In Austria, modern grocery retailers controlled 94 percent of the retail value of oils and fats as of 2015 (Euromonitor International, 2015). These figures highlight their broad reach, and so these are the retailers the following analysis will focus on.

As mentioned, the five leading modern grocery retailers in Austria are Rewe International AG (with its brands Billa, Adeg, Merkur, Penny Market, Billa Stop & Shop and Merkur Inside), Spar Österreichische Warenhandels AG (with the Spar, Interspar and Eurospar chains), Hofer KG, Lidl Austria GmbH and M-Preis Warenvertriebs GmbH. These industry players combined capture 76 percent of the grocery retail value in Austria (Euromonitor International, 2017c), and offer the largest number of stock keeping units (SKUs) per selling area (Aicep Portugal Global, 2017b), providing a wide range of usually high-quality products. This further supports

the decision of selling to these leading grocery retailers, given the congruency between their selected product offerings and Gallo's intended positioning in the target market.

To narrow down the set of potential retailers, several criteria were defined. These are presumed to determine the attractiveness of each specific grocery retailer as a marketplace to display and sell Gallo's product. The list of criteria used to evaluate each retailer follows:

1. Type of retailer;
2. Store footprint, as an indicator of market penetration and reach. It was evaluated resorting to two indicators - the number of outlets and the existing selling space;
3. Average olive oil price;
4. Available range of olive oils. The reasoning applied was as follows: the larger the range, the more attractive the retailer. Although somewhat counterintuitive, since olive oil is not yet a product widely sold in Austrian retail outlets, it is our understanding that a wider offering of olive oil products is associated with a higher demand for these products among the brand's clientele.
5. Brand share, as an indicator of the popularity and/or reach of the retailer among Austrian consumers;
6. The endorsement of private labels. Both the number of existing private labels and the average price of the private label offerings were analyzed to determine the threat posed by these offerings in each specific retailer brand; and
7. Consumer perceptions or associations regarding the retailer.

A table reporting the summary findings of the analysis is depicted in **Exhibit 18** (for the complete data table for the analysis of leading grocery retailers in Austria, please check **Appendix 4**). It is the group's recommendation to place Gallo's products in Billa, Spar and Merkur. The first two are supermarkets widely known by Austrian families and consumers, who opt for doing their weekly shopping there given these retailers' broad geographical

presence, comprehensive product range and reputable selection of high-quality and fresh products. These factors contribute to high brand shares among the Austrian populate. Lastly, Merkur earns its merits in olive oil-related aspects: both the average price and product range of the olive oil offering are considered to be above its peers', even though it seems to fall behind in terms of brand share and store footprint.

In the case of Billa and Spar, since these are weekly stops for most consumers, Gallo should try to feature its products in special campaigns, thematic selections of products with privileged in-store display. Such events promoting healthy and flavorful home cooking, for instance, would promote brand awareness and consumer associations in line with the intended positioning. Moreover, as these brands belong to two leading retailers with several other outlet brands, the opportunity to extend Gallo's products to these other outlets in the future in one to consider.

6.2.4 | Promotion

In order to effectively reach the target consumers, promotional goals shall be defined. For Gallo, these are raising brand awareness, and educating consumers about the benefits and consumption of olive oil with the end goal of stimulating demand in the Austrian market. However, these should not be put into practice simultaneously. Promotional efforts to accomplish the second goal should only be put in practice after brand awareness in Austria is created, otherwise demand will be created favoring the leading players in the market instead of Gallo.

To achieve these goals, the right channels must be leveraged. Considering that Millennials dislike hard selling marketing techniques, since these are perceived to be forceful and obvious, soft selling techniques should be applied. In fact, the message conveyed should be direct and simple. Consumers in Austria associate good olive oil with Italy and Greece and this association will be very hard to break.

Exhibit 18 | Summary analysis of leading grocery retailers in Austria (Team analysis; Euromonitor International,2017; Euromonitor International ,2017b; Aicep Portugal Global, 2017; Websites of the brands Billa, Merkur, Spar, Lidl and MPreis; Information provided by the Aicept Portugal Global delegate in Austria).

	Billa	Adeg	Merkur	Penny Market	Billa Stop & Shop	Merkur Inside	Spar	Interspar	Eurospar	Hofer	Lidl	MPreis
Type of retailer	Supermarket	Supermarket	Hypermarket	Discounter	Forecourt retailer	Forecourt retailer	Supermarket	Hypermarket	Supermarket	Discounter	Discounter	Supermarket
Brand share	▲	▼	▶	▶	▼	▶	▲	▶	▶	▲	▶	▶
Store footprint	▲	▼	▶	▶	▶	n.d.	▲	▶	▼	▲	▶	▶
Average price	▶	n.d.	▲	n.d.	n.d.	n.d.	▶	n.d.	n.d.	▶	▼	▲
Product range	▶	n.d.	▲	n.d.	n.d.	n.d.	▲	n.d.	n.d.	▶	▼	▶
Private label	▲	n.d.	▶	n.d.	n.d.	n.d.	▼	n.d.	n.d.	n.d.	▲	▶
Consumer perceptions	Great for weekly shopping; high-quality and fresh products	Strong regional ties	High-tier outlets	Hard-discounter (imitation of Hoffer); selection of fresh products	Convenient	Convenient	Great for weekly shopping; high-quality and fresh products	Similar to Spar, but bigger	Similar to Spar, but bigger	Hard-discounter; selection of Austrian products	Difficult to find; soft-discounter;	Difficult to find; strong regional origin/ties

For the complete data table for the analysis of leading grocery retailers in Austria, please check **Appendix 4**.

Legend: ▲ Above its peers; ▶ In line with its peers; ▼ Below its peers.

As such, the company should focus the marketing message on two main attributes - health and flavor -, without highlighting its Portuguese origin as a symbol of quality. Marketing efforts should therefore be focused not only on the health benefits of consuming olive oil compared with traditional substitutes, but also on conveying the desire of a flavorful healthy meal as a token of product and brand quality. This message is in line with the company's mission while responding to the Austrian market characteristics.

Since the target market are Millennials, the main channel to be harnessed should be the online channel. Firstly, in order to educate and inspire consumers on how to use olive oil in the dishes they are already used to prepare, Gallo's website should include recipes of Austrian dishes either cooked or seasoned with olive oil in the "Inspire Me" section. To attract consumers to the website, the company needs to promote visibility by investing in search engine marketing (SEM), with Google Ads, for example. Secondly, Gallo should increase its presence on social media, leveraging platforms such as Facebook and Instagram to reach Millennials who are active on and influenced by social media (Nielsen, 2016a). Besides paid advertising on these platforms, the company should also leverage its own Facebook and Instagram pages to create a relationship with Austrian Millennials. One way to do so is to post short videos or articles about olive oil and to share recipes. A focus on raw material sourcing would certainly enrich this channel, since Austrians show a rising concern regarding sustainability and have more favorable sentiments towards brands with ethical sourcing methods (Euromonitor International, 2017a). Hence, creating short promotional videos on Gallo's organic sourcing is expected to have a positive effect on brand equity.

Gallo should also make partnerships with local and international culinary Facebook pages (such as Tasty) or Instagram food influencers. The target market tends to buy products by referral, thus these partnerships could not only increase awareness but create an impulse to buy among consumers (Nielsen, 2016a).

Finally, since the grocery retailing industry in Austria is highly concentrated, retailers hold high bargaining power and there are already world-class olive oil brands in the market, getting shelf space and visibility will be rather complicated. After a meeting with the representative of Aicep Portugal Global in Austria, it was found that a common way of overcoming these barriers in Austria is to buy advertising space in retailers' weekly promotional flyers. In the Austrian stiff retail environment, this is yet another way to reach Austrian consumers, who pay attention and are receptive to products displayed on those flyers. It is also a manner for consumers to be regularly exposed to the brand.

6.2.5 | Concluding remarks

Briefly, it is recommended that Gallo enters the Austrian market with an organic Extra Virgin olive oil with a flavor profile adapted to the Austrian palate. Such product offering is intended to attract Austrian Millennials and take advantage of an under-indexed offer of organic olive oils compared to olive oil overall. Moreover, it should market glass bottles of 75cl labeled so as to highlight two major attributes: health and taste. Regarding price, a benchmark analysis of organic olive oil offerings in Austria yielded that Gallo should price its offering at €10.97 per bottle – above the average price of organic olive oil offerings, and below the price of the least expensive premium offering in the Austrian market. While this is the price the final consumer is to pay for Gallo's products, the price Gallo should charge to distributors is €6.67 per bottle.

In what concerns place, it is our recommendation to place Gallo's products in Billa, Spar and Merkur. Gallo should arrange to feature its products in special campaigns in these outlets promoting healthy and flavorful home cooking, thematic selections of products with privileged in-store display. Moreover, promotion should also actively engage Millennials online. Gallo's website should include recipes of Austrian dishes either cooked or seasoned with olive oil, search engine marketing (SEM) should be leveraged to promote visibility, and social media presence should be upgraded to interact with the target market. A focus on raw material

sourcing by creating short promotional videos on Gallo's organic sourcing is expected to enrich this interaction. Partnerships with local and international culinary Facebook pages or Instagram food influencers should also be pursued. Offline, it is suggested that Gallo invests in advertising space in retailers' weekly promotional flyers.

7 | Operations plan

The operations plan that follows will focus on incremental aspects of sourcing, labor, facilities and equipment, and shipping that arise from the recommendations outlined in the work project. Since Gallo's facilities have excess capacity to absorb increased production for the Austrian market, the implications in sourcing, labor and facilities and equipment here described are related with the certification process Gallo shall undergo to market an organic-certified product in Austria. Implications regarding shipping are also addressed later in this section.

7.1 | Organic certification

For Gallo's olive oil to be marketed as organic-certified in Austria, it must contain the E.U.'s organic logo. For that to be possible, its olive oil must comply with E.U. regulations for organic production and labeling - Council Regulation (EC) No 834/2007 and Commission Regulation (EC) No 889/2008 (OJ L-250 18/09/2008). This means that Gallo's inputs must be grown using organic production methods and its processing facility must be audited by an accredited certifier before Gallo is authorized to use the organic logo. This has important implications in terms of **raw material sourcing**, since Gallo will have to procure olive oil from producers that comply with the regulated standards of organic farming, as well as in **facilities and equipment** functioning.

Note that organic olive oil ought to remain physically separated from conventional oils. Gallo would have to ascertain precautionary measures to avoid any risk of contamination and guarantee suitable cleaning of factory apparatus. Anyhow, this does not present a material constraint for Gallo, since operations already employ such strict quality management

procedures. Furthermore, since Gallo will be processing and storing non-organic products in the same facility, it will have to inform the control authority thereof, and keep available an updated register of all operations, including information on collection days, hours, circuit and date and time of reception of inputs. Moreover, stock and financial records must be kept in the premises for the control authority to verify the supplier, and the nature and quantity of organic olive oil delivered to the factory, held in storage and sent to clients. The documentary accounts must include the results of verification at the reception of organic olive oil and any other information required by the control authority. Everything shall be documented with appropriate justification documents.

Moreover, for the storage of the product, Victor Guedes' warehouse shall be managed in order to ensure swift identification of lots – organic products have to be clearly identified at all times. Finally, in what concerns labeling, Gallo will be responsible for ensuring the product label states, without prejudice to any other indications required by law: (1) its name and address and that of the seller downstream; (2) the name of the product accompanied by a reference to the organic production method; (3) the name and/or the code number of the control authority; and (4) where relevant, the lot identification mark. It is also important to mention that any claims of "natural", "pesticide-free" or "organic by default" are not valid without organic certification.

Labor implications arising from this process include, for the most part, the appointment of a person in the factory responsible for overseeing the facilities and equipment adaptation and the certification process, and managing Gallo's interaction with the control authorities.

7.2 | Shipping logistics

In what concerns shipping logistics, road freight and an intermodal solution (ocean complemented with road freight) were evaluated in terms of applicable market rates offered by Abreu Cargo in the solicited budget. The intermodal solution was considered since it is the type of solution currently used by Gallo to export to Poland. To get these rates, it was assumed a

Full Container Load (FCL) transportation method. That is because FCL costs less than LCL (Less than Container Load) per unit of freight, and, given that Gallo will be transporting fragile cargo, LCL presents higher risk of damage in transit. Moreover, it was also assumed a door-to-door service, from Gallo's facilities in Abrantes to Vienna.

The budgeted intermodal solution of transport for a FCL of a 20'ST container costs €2,500 and takes an average of 20 days to reach the final destination. A road freight solution, instead, would cost €1,450 for half a truck, which is the equivalent to a FCL of a 20'ST container with a maximum weight of 12,000kg. A road freight solution of a full truck (equivalent to a FCL of a 40'ST container) would, in turn, cost €2,500. To determine the shipping solution that minimizes costs, it was assumed that transport logistics will be managed in such a way that Gallo will contract the minimum number of containers possible per year given the forecasted sales volume in the Austrian market, minimizing unit transportation costs (for more information regarding forecasted sales, please check the Financials section).

A 20'ST container takes 11 euro-pallets and has the capacity for 7,920 75cl glass bottles of olive oil. A 40'ST container, in turn, takes 33 euro-pallets and 8,700 75cl glass bottles of olive oil. Container capacity was equated with the forecasted sales volume in Austria to compute the total yearly shipping costs incurred in each solution. The analysis yielded that the solution that minimizes freight costs across the forecast period is road freight **[Exhibit 19]**.

Exhibit 19 | Forecasted yearly shipping costs per transport solution (2019F-2023F) (Team analysis; Budget solicited to Abreu Cargo).

Currency: €	2019	2020	2021	2022	2023
Road freight (20'ST)	-	7,250	13,050	17,400	20,300
Road freight (40'ST)	-	10,000	20,000	27,500	32,500
Intermodal solution (20'ST)	-	12,500	22,500	30,000	35,000

Note: Highlighted in light grey is the solution that minimizes freight costs for the forecast period.

8 | Financials

As part of Gallo's internationalization process to Austria, it is crucial to forecast the potential financial benefits that such an operation could create. Thus, financial projections for the first four years of this endeavor associated with the recommendations outlined throughout the work project are depicted in **Exhibit 21** and explained in the following paragraphs.

8.1 | Forecasted revenues

To compute Gallo's revenues in Austria, one started by assuming the market share the company would be able to attain in the forecast period. Following an analysis of the competitive set in the organic olive oil segment of the Austrian market, it was considered that, in its first year, due to strong marketing efforts, Gallo would be able to steal 0.5 percent market share to each of the six players operating there, resulting in a total of 3 percent market share in 2020. This value was forecasted to sharply increase in the following years and reach 9 percent of the organic market by 2023.

By multiplying the forecasted market share by the total retail volume of organic olive oil in the Austrian market **[Exhibit 20]**, one obtains Gallo's **sales volume**. In 2020, the organic olive oil market is expected to reach a retail volume of 822 thousand liters, which corresponds to 24,651 liters of oil sold by Gallo. This is roughly equivalent to a total of 32,868 bottles of 75cl sold, an amount that, by 2023, is expected to grow to a total of 107,220 bottles as a result of a considerable increase in both market share and market volume.

Exhibit 20 | Organic olive oil retail volume in Austria (2016A-2023F) (Euromonitor International, 2017e).

	2020	2021	2022*	2023*
Retail volume (tonnes)	900	900	939	979
Retail volume (liters)	821,700	821,700	856,848	893,500

In order to compute the **sales value** generated by Gallo, the obtained sales volume was multiplied by the price at which Gallo will sell to distributors in Austria. As discussed in the

Price section, a price of €6.67 is to be charged to distributors. Thus, a total sales value of €219,262 is expected in 2020, growing to €715,264 by 2023.

8.2 | Forecasted costs

As part of the financial analysis, it is also crucial to consider the incremental costs arising from the settlement of Gallo's operations in Austria. These include the cost of goods sold (COGS), transportation costs, marketing costs, organic certification costs, personnel costs and a set of other operating costs that correspond to minor indiscriminate costs the company would have to sustain. Some additional indirect costs, such as those related to equipment depreciation and other overhead costs, were disregarded due to the small share the Austrian market would contribute to the company's overall sales.

Firstly, in order to estimate the **COGS** of a new organic olive oil, a price benchmark to several Portuguese companies was performed. For this purpose, the prices charged for several organic olive oils offered in the Portuguese market were collected. Secondly, the VAT, the average retailers' margin and an assumed company's margin were deducted from these prices in order to get an approximation of what the COGS of these products could be. Lastly, it was assumed that Gallo's forecasted cost would be an average of these COGS. All in all, the forecasted cost amounts to €4.78 per bottle, which, after multiplying by the total amount of bottles sold, results in €156,950 in 2020, and €511,994 in 2023.

The reasoning employed for computing the **transportation costs** was the one displayed in the Operations section. The total and unit costs are, respectively, €7,250 and €0,22 in 2020, evolving to €20,300 and €0,19 in 2023. These values were obtained by assuming that Gallo will manage transportation in such a way that maximizes the quantity shipped per container.

The **certification costs** are the third type of cost to consider. Even though there is not an established fee to pay for this certification, it is known that, on average, these certification costs

are 0.7 percent of the COGS. Thus, certification costs are to evolve proportionally to sales, totaling €1,099 in 2020 and €3,584 in 2023.

Moreover, in order to enter the market in 2020, it is assumed that Gallo would have to incur **personnel costs** right from 2018. In fact, during the two years before entering the market, Gallo would bear the costs of a headquarters' worker that would be spending half of his/her time working on the Austrian market. Additionally, it would need to have a factory worker that, for three months, would be responsible for managing the certification process and finding the blending that best satisfies the Austrian palate. Costs for the former are obtained by assuming a wage per hour of €7 and a total amount of hours in a year dedicated to the Austrian market of 88 monthly hours times 12 months. For the latter, one must multiply the three months of work by an average wage of €856, the average wage in the Portuguese industrial sector. From here, a cost of €2,568 is obtained, which adds to €7,392 of the headquarters' worker totaling €9,960 incurred in 2018. From 2018 onwards, the headquarters' worker is expected to keep dedicating the same amount of time to manage the Austrian market. Thus, the value of the personnel costs in the subsequent years would be €7,392, evolving with the forecasted inflation to reach €8,215 in 2023.

The fifth cost to consider is the **marketing cost**. It was assumed that, in order to capture the proposed market share, Gallo should invest 10 percent of the forecasted sales for 2020 in 2019, before entering the market, and evolve to 25 percent of the yearly sales in the following year. Even though this percentage is to be reduced throughout the years (ending in 12 percent of sales in 2023, and closing the gap to the industry's average of 7-10 percent), its total value will find its peak in 2022, amounting to €91,456, which would then decrease to €85,832 in 2023.

Lastly, some **other costs** were also considered. These are expected to represent 0.7 percent of total yearly sales, amounting to €1,570 in 2020, and €3,584 in 2023.

After determining both the revenues and costs associated with this project, it is possible to compute the total earnings of Gallo's operations in Austria. Overall, as it can be seen in **Exhibit 21**, even though Gallo scores a negative EBITDA in the first year of operations, this trend shifts in 2021, as the company is expected to surpass the breakeven by reaching earnings of €10,675, later evolving to €80,220 in 2023. In this case, since depreciation is assumed to be null (due to the diminished share the market would represent in terms of overall company's revenues), EBITDA equals EBIT. In the end, after registering an investment of €9,960 in 2018 and €29,454 in 2019, the company goes from net earnings of €-10,109 in 2020 to a total of €63,374 in 2023.

Exhibit 21 | Scenario analysis (Team analysis).

Expected scenario

Currency: €	2018	2019	2020	2021	2022	2023
Market share	*0%*	*0%*	*3%*	*6%*	*8%*	*9%*
Sales revenue	**-**	**-**	**219,262**	**438,525**	**609,709**	**715,264**
Net sales	**-**	**-**	**219,262**	**438,525**	**609,709**	**715,264**
Total operating costs	**9,960**	**29,454**	**229,372**	**427,849**	**560,746**	**635,044**
COGS	-	-	156,950	313,900	436,436	511,994
Personnel costs	9,960	7,527	7,688	7,858	8,034	8,215
Marketing costs	-	21,926	54,816	87,705	91,456	85,832
Transportation costs	-	-	7,250	13,050	17,400	20,300
Certification costs	-	-	1,099	2,197	3,055	3,584
Other operating costs	-	-	1,570	3,139	4,364	5,120
EBIT(DA)	**(9,960)**	**(29,454)**	**(10,109)**	**10,675**	**48,963**	**80,220**
Taxes	-	-	-	2,242	10,282	16,846
Net earnings	**(9,960)**	**(29,454)**	**(10,109)**	**8,434**	**38,681**	**63,374**

Optimistic scenario

Currency: €	2018	2019	2020	2021	2022	2023
Market share	*0%*	*0%*	*6%*	*8%*	*10%*	*12%*
Sales revenue	**-**	**-**	**438,525**	**584,700**	**778,379**	**994,772**
Net sales	**-**	**-**	**438,525**	**584,700**	**778,379**	**994,772**
Total operating costs	**9.960**	**51,380**	**409,295**	**517,482**	**647.579**	**793,776**
COGS	-	-	281,350	375,133	499,395	638,229
Personnel costs	9,960	7,527	7,688	7,858	8,034	8,215
Marketing costs	-	43,852	109,631	116,940	116,757	119,373
Transportation costs	-	-	13,050	17,400	21,750	27,550
Certification costs	-	-	1,969	2,626	3,496	4,468
Other operating costs	-	-	1,407	1,876	2,497	3,191
EBIT(DA)	**(9,960)**	**(51,380)**	**23,430**	**62,867**	**126,450**	**193,747**

Taxes	-	-	4,920	13,202	26,554	40,689
Net earnings	**(9,960)**	**(51,380)**	**18,509**	**49,665**	**99,896**	**153,060**

Pessimistic scenario

Currency: €	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Market share	*0%*	*0%*	*1%*	*2%*	*2%*	*3%*
Sales revenue	**-**	**-**	**73,087**	**109,631**	**149,097**	**190,103**
Net sales	**-**	**-**	**73,087**	**109,631**	**149,097**	**190,103**
Total operating costs	**9,960**	**14,836**	**93,198**	**132,816**	**170,173**	**207,359**
COGS	-	-	57,848	86,772	118,008	150,464
Personnel costs	9,960	7,527	7,688	7,858	8,034	8,215
Marketing costs	-	7,309	18,272	21,926	22,365	22,812
Transportation costs	-	-	2,900	4,350	4,350	5,800
Certification costs	-	-	405	607	826	1,053
Other operating costs	-	-	1,735	2,603	3,540	4,514
EBIT(DA)	**(9,960)**	**(14,836)**	**(15,760)**	**(14,485)**	**(8,026)**	**(2,755)**
Taxes	-	-	-	-	-	-
Net earnings	**(9,960)**	**(14,836)**	**(15,760)**	**(14,485)**	**(8,026)**	**(2,755)**

Intermediate (+) scenario

Currency: €	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Market share	*0%*	*0%*	*6%*	*8%*	*10%*	*12%*
Sales revenue	**-**	**-**	**438,525**	**584,700**	**762,135**	**953,686**
Net sales	**-**	**-**	**438,525**	**584,700**	**762,135**	**953,686**
Total operating Costs	**9,960**	**51,380**	**413,602**	**523,708**	**641,390**	**769,578**
COGS	-	-	281,350	375,133	488,973	611,869
Personnel costs	9,960	7,527	7,688	7,858	8,034	8,215
Marketing costs	-	43,852	109,631	116,940	114,320	114,442
Transportation costs	-	-	13,050	17,400	21,750	27,550
Certification costs	-	-	1,969	2,626	3,423	4,283
Other operating costs	-	-	2,814	3,751	4,890	6,119
EBIT(DA)	**(9,960)**	**(51,380)**	**22,023**	**60,991**	**120,745**	**181,208**
Taxes	-	-	4,625	12,808	25,356	38,034
Net earnings	**(9,960)**	**(51,380)**	**17,398**	**48,183**	**95,388**	**143,154**

Intermediate (-) scenario

Currency: €	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Market share	*0%*	*0%*	*1%*	*2%*	*2%*	*3%*
Sales revenue	**-**	**-**	**73,087**	**109,631**	**152,426**	**198,682**
Net sales	**-**	**-**	**73,087**	**109,631**	**152,426**	**198,682**
Total operating costs	**9,960**	**14,836**	**87,691**	**122,380**	**157,942**	**199,235**
COGS	-	-	57,848	86,772	120,643	157,254
Personnel costs	9,960	7,527	7,688	7,858	8,034	8,215
Marketing costs	-	7,309	18,272	21,926	22,864	23,842
Transportation costs	-	-	2,900	4,350	4,350	5,800

Certification costs	-	-	405	607	845	1,101
Other operating costs	-	-	578	868	1,206	1,573
EBIT(DA)	**(9,960)**	**(14,836)**	**(14,603)**	**(12,749)**	**(5,516)**	**898**
Taxes	-	-	-	-	-	189
Net earnings	**(9,960)**	**(14,836)**	**(14,603)**	**(12,749)**	**(5,516)**	**709**

8.3 | Scenario analysis

Moreover, risk was evaluated in an analysis of four alternative scenarios, in which changes were made in the variables that are more likely to fluctuate throughout the years of Gallo's activity: COGS, market share, market growth and other operating costs.

8.3.1 | The optimistic scenario

In the optimistic scenario, it was assumed that the forecasted sales growth would be 6.5 percent, instead of 4.28 percent. It was also considered that Gallo's market share would increase by 2 percent each year compared with the expected scenario. As for the COGS, in this scenario, it would be €4.28 per bottle, which can be justified by the company's superior new product development competence. Furthermore, other operating costs were also considered to be 0.5 percent lower. The reasoning behind this optimistic perspective is that the high investment in marketing would enable Gallo to capture an ambitious market share in the organic segment. Apart from that, it can also be assumed that the health and wellness trend would drive the industry's retail value more than expected. All in all, this would lead to €153,060 net earnings in 2023, an increase of almost than €90,000 when compared with the expected scenario.

8.3.2 | The pessimistic scenario

In the pessimistic scenario, one assumed that not only would the forecasted sales growth be less than expected (2 percent), but also that the company's market share would be 1 percent in 2020 and grow 0.5 percent per year. When it comes to the COGS, if Gallo is not able to leverage its new product development competence to create the organic product offering, costs will be higher. Similarly, in terms of operating costs, these would be above the expected scenario. In this case, the negative net earnings (€-2,755 as of 2023) would be partly due to the lower sales

growth rate, and also due to the overestimated return from the marketing investments, which in this case did not have the desired impact in terms of market share.

8.3.3 | The intermediate (+) and intermediate (-) scenarios

Due to the large differences between the optimistic and the pessimistic scenarios, two additional intermediate scenarios were created. For these two it was assumed that the COGS and market share were the variables which are more likely to vary. Thus, they were changed in the same percentage as before, remaining the other variables constant. In this sense, the intermediate (+) scenario assumes that the change in the COGS combined with the higher market share would result, in 2023, in net earnings slightly below the optimistic scenario, but still above the expected scenario (€143,154). On the contrary, in the intermediate (-) scenario, the assumed change in the COGS and a lower market share, would lead to net earnings close to 0 (€709).

8.4 | Concluding remarks

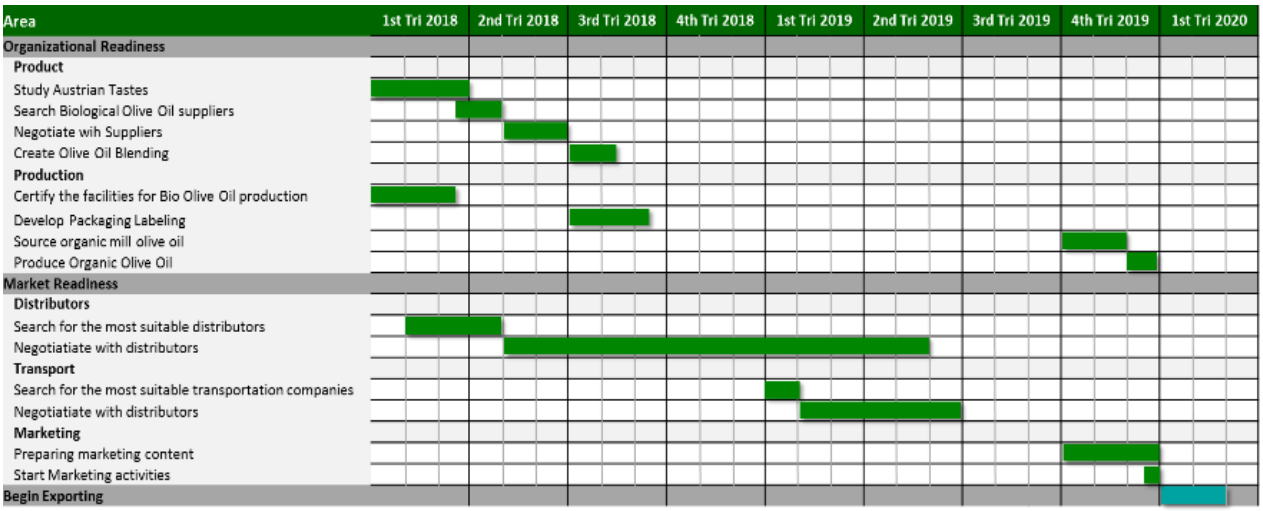
All in all, the forecasted volume and retail value of the Austrian organic olive oil market, together with the risk analysis, reveal a business opportunity for Gallo in this country. Nevertheless, it is important to highlight the fact that in the Pessimistic and the Intermediate (-) scenarios there would be no profit for Gallo during the first years of operation. Yet, in the remaining three scenarios, Gallo's net earnings would range from €63,374 to €153,060 in 2023. As in every business there are risks associated, making it crucial for Gallo to try to minimize its exposure. In this case there will be increased efforts, especially when it comes to product development and marketing, which translate into significant costs for the company. Still, one can say that, overall, if the outlined strategy is appropriately implemented, there is a favorable setting for Gallo to enter the Austrian market.

9 | Implementation plan

To complete Gallo’s internationalization plan to Austria, a roadmap of the major activities Gallo needs to perform to start exporting and respective timelines was devised **[Exhibit 22]**. These

fit in two major categories: organizational readiness - all the activities Gallo needs to undertake to be internally prepared to internationalize -, and market readiness – all the external activities necessary to enter the market as proposed in the work project.

Exhibit 22 | Roadmap for Gallo's internationalization to Austria (Team analysis).



The activities involved in getting the company ready to internationalize are both product- and production-related. Regarding product-related activities, and considering that the company will need to adapt its product to Austrian consumers' tastes, the first activity to be performed should be to study Austrians' tastes. Secondly, the company will need to source from suppliers whose farming and production methods meet Gallo's quality standards and comply with the regulated standards of organic farming. Since Gallo has a wide and strong supplier network, the precedent activity should be conducted inside Gallo's network, and only after exhausting all possibilities outside the network. This is advantageous because negotiations with new suppliers will take longer. Both the study of Austrian tastes and the search for organic olive oil suppliers are essential to start creating the right blend for the Austrian market.

Regarding production-related activities, Gallo's facilities must be certified if an organic olive oil is to be produced. According to CCOF (2013), this activity should take about ten weeks to be completed and should be undertaken from the beginning, at the same time as the study of Austrian tastes. Yet, the development of packaging label should start during the negotiation

phase with suppliers, as in this period most of the uncertainties regarding the project are resolved. The remaining activities, sourcing the organic olive oil in bulk and starting production, are due in the month before starting to export.

The activities concerned with getting the market ready, involve searching and negotiating with both distributors and transportation companies. Even though the activities concerning arranging transportation are simpler and faster, activities related to distributors are complicated and time-consuming. In fact, the latter is the most time-consuming activity of the project. It is presumed to be concluded by the end of the second trimester of 2019, since the trade window for distributors to negotiate with retailers is usually in the third trimester of the year. Finally, the company should start preparing marketing content six months before entering the market, only starting the initiatives themselves in the two weeks before exporting starts.

All the activities explained above should take about two years to be concluded, and upon completion Gallo shall be ready to start exporting to the Austrian market.

Conclusion

As the starting point of this work project, the group was challenged to internationalize Gallo's olive oil to Austria. To address this challenge, the report was divided into two main parts: the situation analysis and the recommendations provided. In the first part, it was concluded that, even though the Austrian market presents some ecosystem risks, Gallo's capabilities enable the firm to create a sustainable competitive advantage. In fact, it was found that, by harnessing its VRIO resources, Gallo should be able to prosper in this foreign market. Furthermore, the up-surging health awareness among Austrian consumers, combined with the dynamic growth of the olive oil consumption in the country reveals an interesting opportunity for Gallo to seize.

In the second part, it was concluded that if the company follows a series of recommendations, it will be able to mitigate the risk associated with the market, and profitably exploit demand. These recommendations outlined throughout the report fit in three main blocks (Entry mode,

Marketing and Operations), which are then reflected in the Financial plan. The latter supports the conclusion of entering the Austrian market. To reach this, Gallo should follow several recommendations that, combined, are presumed to be the best strategy to follow.

Regarding **Entry mode**, Gallo should enter Austria by direct exporting through a distributor. As part of the resulting contract, Gallo is expected to have a high degree of knowledge transfer, particularly in terms of tacit knowledge. This is expected to drive the company to put in place a contractual agreement to ensure confidentiality and commitment. Lastly, a framework was created that enables Gallo to understand what rationale to take and what *stimuli* to track when considering changing the mode of operation.

In the **Marketing** section, it is recommended that Gallo targets Older Millennials and creates a unique positioning in the mind of consumers by selling an above average-priced organic olive oil with a flavor profile adapted to the Austrian market. This offering should be placed in the major retailing outlets (Billa, Spar and Merkur). To promote such offer, the company should leverage two main channels: online, providing low-cost, wide coverage interactions; and retailers' promotional flyers, which highly influence consumers' food purchase decisions.

Finally, concerning **operations**, it was found that, in order to internationalize to Austria in the aforementioned terms, the company needs to be organic-certified, for which it must adapt its sourcing, storage and production methods and product labeling. Moreover, it is recommended for the company to opt for a road freight shipping mode to minimize costs.

All in all, it is the group's assessment that if Gallo follows the outlined recommendations, it will be able to enter the Austrian market by 2020, reinforcing its path to conquer the European market and become the number one player in the global olive oil market.

Appendices

Appendix 1 | Gallo Worldwide's olive oil portfolio as of November 2016 (Gallo Worlwide, 2017).

FIRST CROP 2017-2018

Extra Virgin Premium Olive Oil - Olive Oil

SPECIAL SELECTION

Extra Virgin Premium Olive Oil - Olive Oil

MOONLIGHT HARVEST

Extra Virgin Premium Olive Oil - Olive Oil

LATE HARVEST

Extra Virgin Premium Olive Oil - Olive Oil

MOMENTS

Extra Virgin Premium Olive Oil - Olive Oil

RESERVE

Extra Virgin Olive Oil - Olive Oil

MY FIRST OLIVE OIL

Extra Virgin Olive Oil - Olive Oil

EXTRA-VIRGIN

Extra Virgin Olive Oil - Olive Oil

MILD

Extra Virgin Olive Oil - Olive Oil

OLIVE OIL

Olive Oil - Olive Oil

CLÁSSICO

Virgem Extra - Azeites

SUAVE

Virgem Extra - Azeites

GOURMET

Virgem Extra - Azeites

AVELUDADO

Virgem Extra - Azeites

SUBLIME

Virgem Extra - Azeites

DELICADO

Virgem Extra - Azeites

Appendix 2 | Support analysis to the positioning map (Individual analysis).

	Pearls of Samarkand	AlNatura	NFU	Ja!Natürlich	Spar Natur*pur
Brand	Labeled brand	Labeled brand	Labeled brand	Private label (Spar)	Private label (Billa)
Characterization	Only sells organic products	Only sells organic products	Only sells organic products	Only sells organic products	Only sells organic products
Average Price	€25.98 per liter	€10.73 per liter	€12.32 per liter	€12.27 per liter	€12.49 per liter
Olive Oils in the Austrian market	Extra virgin	Extra virgin Italian virgin	Greek extra virgin Italian extra virgin	Three different extra virgin olive oils	Extra virgin Native
Differentiating flavor characteristics	Non-existing	Non-existing	Sourcing location	Coratin olives (spicy and tartan flavor) Sourcing location	Non-existing

Appendix 3 | Olive oil grades – Designations and definitions according to the International Olive Oil Council (International Olive Oil Council, 2017).

Olive oil is the oil obtained solely from the fruit of the olive tree, to the exclusion of oils obtained using solvents or re-esterification processes and of any mixture with oils of other kinds. It is marketed in accordance with the following designations and definitions:

1. *Virgin olive oils* are the oils obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions, particularly thermal conditions, that do not lead to alterations in the oil, and which have not undergone any treatment other than washing, decantation, centrifugation and filtration.

1.1. Virgin olive oils fit for consumption as they are include:

i. *Extra virgin olive oil*: virgin olive oil which has a free acidity, expressed as oleic acid, of not more than 0.8 grams per 100 grams, and the other characteristics of which correspond to those fixed for this category in this standard.

ii. *Virgin olive oil*: virgin olive oil which has a free acidity, expressed as oleic acid, of not more than 2 grams per 100 grams and the other characteristics of which correspond to those fixed for this category in this standard.

iii. *Ordinary virgin olive oil*: virgin olive oil which has a free acidity, expressed as oleic acid, of not more than 3.3 grams per 100 grams and the other characteristics of which correspond to those fixed for this category in this standard.

1.2. Virgin olive oil not fit for consumption as it is, designated *lampante virgin olive oil*, is virgin olive oil which has a free acidity, expressed as oleic acid, of more than 3.3 grams per 100 grams and/or the organoleptic characteristics and other characteristics of which correspond to those fixed for this category in this standard. It is intended for refining or for technical use.

2. *Refined olive oil* is the olive oil obtained from virgin olive oils by refining methods which do not lead to alterations in the initial glyceridic structure. It has a free acidity, expressed as oleic acid, of not more than 0.3 grams per 100 grams and its other characteristics correspond to those fixed for this category in this standard.

3. *Olive oil* is the oil consisting of a blend of refined olive oil and virgin olive oils fit for consumption as they are. It has a free acidity, expressed as oleic acid, of not more than 1 gram per 100 grams and its other characteristics correspond to those fixed for this category in this standard.

Appendix 4 | Complete data table for the analysis of leading grocery retailers in Austria (Team analysis; Euromonitor International (2017); Euromonitor International (2017b); Aicep Portugal Global (2017); Websites of the brands Billa, Merkur, Spar, Lidl and MPreis; Information provided by the Aicept Portugal Global delegate in Austria).

	Billa	Adeg	Merkur	Penny Market	Billa Stop & Shop	Merkur Inside	Spar	Interspar	Eurospar	Hofer	Lidl	MPreis
Type of retailer	Supermarket	Supermarket	Hypermarket	Discounter	Forecourt retailer	Forecourt retailer	Supermarket	Hypermarket	Supermarket	Discounter	Discounter	Supermarket
Brand share (2016)	13.7%	1.0%	7.1%	3.2%	0.3%	n.d.	11.8%	6.5%	5.9%	17.5%	4.7%	3.2%
Number of outlets (2016)	1,064	310	131	295	130	n.d.	1,230	n.d.	185	455	214	252
Selling space (‘000 sq.m; 2016)	522	70	308	221	n.d.	n.d.	610	333	241	348	151	141
Average price (€/liter)	10.49	n.d.	13.84	n.d.	n.d.	n.d.	12.26	n.d.	n.d.	7.82	4.66	13.58
Product range	16	n.d.	31	n.d.	n.d.	n.d.	26	n.d.	n.d.	7	1	9
Number of private labels	3	n.d.	4	n.d.	n.d.	n.d.	5	n.d.	n.d.	n.d.	-	1
Average price (€/liter)	12.32	n.d.	15.81	n.d.	n.d.	n.d.	8.88	n.d.	n.d.	n.d.	n.a.	10.98
Consumer perceptions	Great for weekly shopping; high-quality and fresh products	Strong regional ties	High-tier outlets	Hard-discounter (imitation of Hoffer); selection of fresh products	Convenient	Convenient	Great for weekly shopping; high-quality and fresh products	Similar to Spar, but bigger	Similar to Spar, but bigger	Hard-discounter; selection of Austrian products	Difficult to find; soft-discounter;	Difficult to find; strong regional origin/ties

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